

REPORT ON EXAMINATION

OF THE

COMPASS INSURANCE COMPANY

AS OF

DECEMBER 31, 2015

DATE OF REPORT

FEBRUARY 15, 2017

EXAMINER

LAMIN JAMMEH

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

February 15, 2017

Honorable Maria T. Vullo
Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31525 dated August 23, 2016, attached hereto, I have made an examination into the condition and affairs of Compass of Insurance Company as of December 31, 2015, and submit the following report thereon.

Wherever the designation “the Company” or “Compass” appears herein without qualification, it should be understood to indicate Compass of 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 8200 Beckett Park Drive, West Chester, OH 45069.

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, 2010. This examination covered the five year period from January 1, 2011 through December 31, 2015. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination was conducted in conjunction with the state of Wisconsin, which was the coordinating state. The examination was performed concurrently with the examination of Northwestern National Insurance Company (“NNIC”).

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. The examiners also relied upon audit work performed by the Company’s independent public accountants where deemed appropriate.

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

- Significant subsequent events
- Company history
- Corporate records
- Management and control
- Fidelity bonds and other insurance
- Territory and plan of operation

Loss experience
Reinsurance
Accounts and records
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 on March 6, 1968, under the laws of the State of New York and licensed on 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 February 2011, the Company reduced its capital from \$1,253,480 consisting of 125,348 shares with a par value of \$10 per share to \$947,420 consisting of 94,742 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 February 23, 2011.

As of December 31, 2015, capital paid in is \$947,420 consisting of 94,742 shares of common stock at \$10 par value per share. Gross paid in and contributed surplus is \$31,429,415. 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 seven members. At December 31, 2015, the board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Ernest Joseph Blaché Jr. West Chester, OH	President & Chief Executive Officer, Compass Insurance Company
Hugh Williamson Greene, Jr. Maineville, OH	Consultant (Claims)
Patricia Suzanne Henson Maineville, OH	Reinsurance Accounting Manager, Northwestern National Insurance Company
Douglas Otto Mitterholzer Springboro, OH	Assistant Treasurer AK Steel Corporation
Richard Herman Pluschau Dix Hills, NY	President Pluschau Consultants
Gary Mark Sussman Miamisburg, OH	Vice President and Treasurer, Compass Insurance Company

Alwin Helmut Thiemke
East Amherst, NY

Vice President
Decorative Solid Surfaces

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, 2015, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Ernest J. Blaché Jr.	President
Amy K. Domacher	Secretary
Gray M. Sussman	Treasurer

B. Territory and Plan of Operation

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

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

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

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 Longshore and Harbor Workers' Compensation Act (Public Law No. 803, 69th 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 as terminated in 1990.

C. Reinsurance

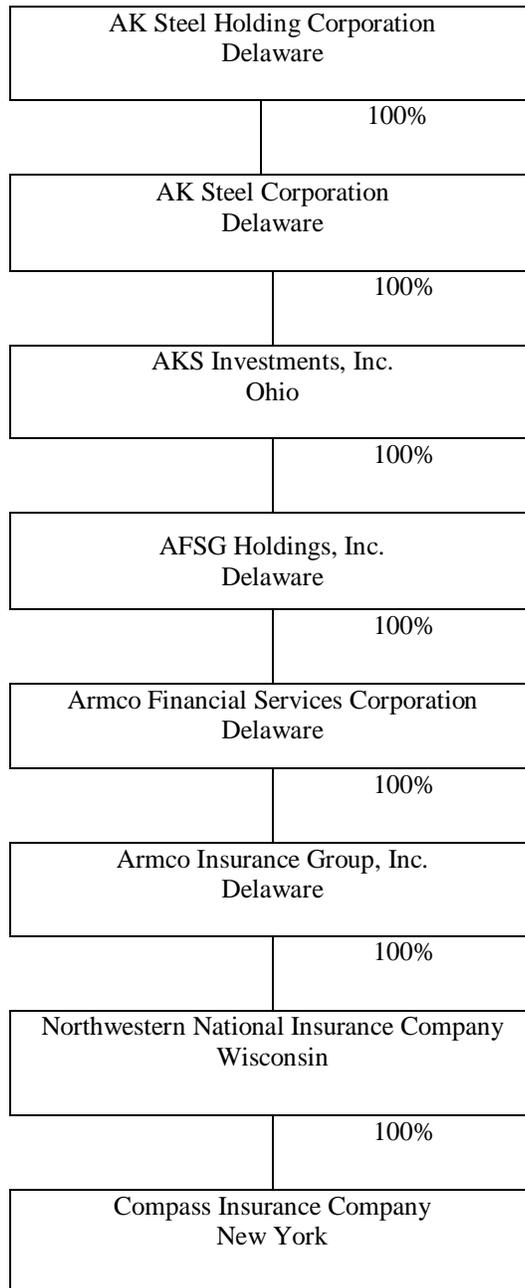
All of the Company's ceded reinsurance contracts have been in run-off and therefore had no agreements with active cessions at the examination date. The Company took approximately \$346,000 in statutory credits for these ceded reinsurance agreements in run-off.

D. Holding Company System

The Company is a wholly owned subsidiary of Northwestern National Insurance Company (a Wisconsin domiciled insurer), 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 is an abridged chart of the holding company system at December 31, 2015:



Subsequent to the examination period, the Company's ultimate parent, AK Steel Holding Corporation, executed a stock purchase agreement with SOBC Gamma Holding Company Limited ("SOBC"), regarding the sale of Compass Insurance Company and Northwestern National Insurance Company for \$1.00. SOBC submitted an application of the acquisition of control of the Company to the Department. The application was approved on October 27, 2016.

As of December 31, 2015, 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, the 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.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2015, based upon the results of this examination:

Liabilities to liquid assets (cash and invested assets less investments in affiliates)	16%
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The ratio above falls within the benchmark range set forth in the Insurance Regulatory Information System (“IRIS”) of the National Association of Insurance Commissioners.

Premium based IRIS and underwriting ratios are not applicable to run-off companies and therefore not presented, as the Company has been in run-off since 1984.

F. Accounts and Records

The review of the Company's insurance coverages and bonding program revealed that the Company did not hold a fidelity bond. The NAIC has established a suggested minimum level of fidelity bond coverage for employees responsible for the safeguard of assets. The bonding levels are based on the amount of admitted assets and gross income.

It is recommended that the company obtain a fidelity bond for the appropriate employees and ensure that the bond amount is at least to the minimum suggested level of \$175,000 per the NAIC guidelines.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2015 as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Examination</u> Assets Not <u>Admitted</u>	<u>Net Admitted</u> <u>Assets</u>
Bonds	\$11,892,936	\$ 0	\$11,892,936
Cash and short-term investments	\$58,760	0	58,760
Investment income due and accrued	139,248	0	139,248
Amounts recoverable from reinsurers	53,259	53,259	0
Net deferred tax asset	101,671	72,444	29,227
Loss portfolio transfer account 1988-002	<u>22,414</u>	<u>0</u>	<u>22,414</u>
Total assets	<u>\$12,268,288</u>	<u>\$125,703</u>	<u>\$12,142,585</u>
<u>Liabilities, surplus and other funds</u>			<u>Examination</u>
<u>Liabilities</u>			
Losses and Loss Adjustment Expenses			\$ 2,659,102
Other expenses (excluding taxes, licenses and fees)			54,845
Funds held by company under reinsurance treaties			8,496
Payable to parent, subsidiaries and affiliates			24,130
Loss portfolio transfer account 1988-002			<u>(794,276)</u>
Total liabilities			\$ 1,952,297
<u>Surplus and other funds</u>			
Common capital stock		\$ 947,420	
Gross paid in and contributed surplus		31,429,415	
Unassigned funds (surplus)		<u>(22,186,547)</u>	
Surplus as regards policyholders			<u>10,190,288</u>
Total liabilities, surplus and other funds			<u>\$12,142,585</u>

Note: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2006. There were no changes by Internal Revenue Service to Company's reported filed tax. 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

Net income for the five-year examination period, January 1, 2011 to December 31, 2015, was \$588,119, detailed as follows:

Underwriting Income

Premiums earned		\$	0
Deductions:			
Losses and loss adjustment expenses incurred	\$1,710,817		
Other underwriting expenses incurred	<u>1,034,005</u>		
Total underwriting deductions			<u>2,744,822</u>
Net underwriting loss			\$(2,744,822)

Investment Income

Net investment income earned	\$2,221,231		
Net realized capital gain	<u>605,168</u>		
Net investment gain			2,826,399

Other Income

Reinsurance balance charge of loss	\$ (7,386)		
Loss portfolio transfer 1988-002	<u>513,928</u>		
Total other income			<u>506,542</u>
Net income before dividends to policyholders and before federal and foreign income taxes			\$ 588,119
Federal and foreign income taxes incurred			<u>0</u>
Net income			\$ <u>588,119</u>

C. Capital and Surplus Accounts

Surplus as regards policyholders decreased \$2,414,023 during the five-year examination period, January 1, 2011 through December 31, 2015, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31, 2010			\$12,604,311
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$588,119		
Net unrealized capital gains or (losses)	167		
Change in net deferred income tax	101,645		
Change in nonadmitted assets		\$ 64,931	
Capital changes paid in		306,060	
Surplus adjustments paid in		2,690,760	
Dividends to stockholders		3,203	
Prior year audit adjustment	<u>0</u>	<u>39,000</u>	
Net increase (decrease) in surplus	<u>\$689,931</u>	<u>\$3,103,954</u>	<u>(2,414,023)</u>
Surplus as regards policyholders per report on examination as of December 31, 2015			<u>\$10,190,288</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$2,659,102 is the same as reported by the Company as of December 31, 2015. 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”).

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Accounts and Records</u>	
i. It is recommended that the Company amend its custodial agreement to reflect PNC Bank, N.A. as its current custodian.	8
The Company has complied with this recommendation.	
ii. It is recommended that the Company amend its investment management agreement to reflect PNC Bank, N.A. as its current investment management company.	9
The Company has complied with this recommendation.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONSITEMPAGE NO.A. Accounts and Records

It is recommended that the company obtain a fidelity bond for the appropriate employees and ensure that the bond amount is at least to the minimum suggested level of \$175,000 per the NAIC guidelines.

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Respectfully submitted,

Lamin Jammeh
Senior Insurance Examiner

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

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

Lamin Jammeh

Subscribed and sworn to before me

this _____ day of _____, 2017.

APPOINTMENT NO. 31525

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, Maria T. Vullo, 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:

Lamin Jammeh

as a proper person to examine the affairs of the

Compass 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 23rd day of August, 2016

MARIA T. VULLO
Superintendent of Financial Services



By:

Joan P. Riddell

Joan Riddell
Deputy Bureau Chief