

REPORT ON EXAMINATION

OF THE

CONSTELLATON REINSURANCE COMPANY

AS OF

DECEMBER 31, 2013

DATE OF REPORT

MARCH 4, 2015

EXAMINER

SUSAN WEIJOLA

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Shirin Emami
Acting Superintendent

March 4, 2015

Honorable Shirin Emami
Acting Superintendent 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 31203 dated July 9, 2014, attached hereto, I have made an examination into the condition and affairs of Constellation Reinsurance Company as of December 31, 2013, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Constellation Reinsurance 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 475 Kilvert Street, Warwick, Rhode Island 02886.

1. SCOPE OF EXAMINATION

The Department has performed a coordinated group examination of the Company, a single-state insurer. The previous examination was conducted as of December 31, 2009. This examination covered the four year period from January 1, 2010 through December 31, 2013. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination was conducted in conjunction with the State of New Jersey, which was the coordinating state of the Enstar Group examination. The examination was performed concurrently with the examinations of Clarendon National Insurance Company; Clarendon America Insurance Company; Harbor Specialty Insurance Company; Claremont Liability Insurance Company; SeaBright Insurance Company; Providence Washington Insurance Company; York Insurance Company and Seaton Insurance Company. Other states participating in the examination were New Jersey, California, Illinois and Rhode Island.

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:

Significant subsequent events
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
Accounts and records
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 June 1, 1977 and commenced business on July 1 of the same year. The Company, which was a wholly-owned subsidiary of the Great American Insurance Company of Cincinnati, Ohio, was sold on October 1, 1977 to Ticor 130 Inc., a subsidiary of Santa Fe Pacific Corporation.

On February 24, 1987, the Supreme Court of the State of New York issued an order placing the Company in liquidation pursuant to Article 74 of the New York Insurance Law and appointed the superintendent of insurance of the State of New York as liquidator. The Company was in liquidation under the jurisdiction of the New York State superintendent of insurance from 1987 to 1992 and ceased underwriting new business in 1986. In November, 1992, the Company emerged from the liquidation proceedings and entered into a loss portfolio transfer agreement (“LPT” agreement) with Centre Reinsurance Company of New York (“Centre Re”), whereby Centre Re agreed to assume 100% of the Company’s outstanding losses and allocated loss adjustment expenses on business written prior to February 24, 1987 (the date the order of liquidation was entered with the Supreme Court of the State of New York) and all unallocated loss adjustment expenses associated with the

run-off of the Company's obligations. The initial consideration paid by the Company was \$208 million and the maximum limit of liability was \$305 million; the initial estimated gross liability was \$295 million. The agreement provided that the limit of liability may be increased pursuant to an "Expansion of Limit" clause, which provided that the limit is increased by the balance, if positive, of 90% of the initial consideration plus retrocessions recovered by the reinsurer less 100% of the losses and administration expenses paid by the reinsurer plus interest.

On July 13, 1992, with the consent of the court, the Department approved a plan of reorganization of Constellation, terminating the liquidation and reinstating its license. On November 6, 1992, the Company was acquired by Centre Reinsurance Holdings (Delaware), Ltd., a Delaware corporation. Simultaneous with the acquisition, Centre Reinsurance Holdings (Delaware) Ltd. contributed \$2,250,000 to the Company's capital and surplus. Pursuant to the terms of a stock purchase agreement dated November 6, 1992, the Company allocated \$2,350,000 to capital, consisting of 100,000 shares of common stocks at par value of \$23.50 per share and \$150,000 to contributed surplus.

On January 30, 2009, Sun Gulf Holdings Inc. acquired 100% of Constellation Reinsurance Company. Sun Gulf Holdings, Inc. is ultimately owned by Enstar Group, Ltd. As part of the sale, the reinsurance agreement with Centre Re was commuted.

On December 30, 2014, subsequent to the examination date, the Company merged into Clarendon National Insurance Company, a company organized under the laws of Illinois. Clarendon became the surviving company after the merger.

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 or more than twenty members. The board meets four times during each calendar year. At December 31, 2013, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Thomas J. Balkan Clearwater, FL	Vice President, Secretary and Authorized House Counsel Enstar (US) Inc.
Jay Banskota St. Petersburg, FL	Vice President Enstar (US) Inc.
Kathleen Barker New York, NY	Senior Vice President Enstar (US) Inc.
Joseph Follis Holland, PA	Senior Vice President Enstar (US) Inc.
Andrea Giannetta Providence, RI	Vice President and Reinsurance Counsel Enstar (US) Inc.
Steve Given St. Petersburg, FL	Chief Operating Officer Enstar (US) Inc.
James Grajewski Tierra Verde, FL	Vice President Enstar (US) Inc.
Mark A. Kern New York, NY	Vice President, Client Director Enstar (US) Inc.
Thomas J. Nichols New York, NY	Executive Vice President and Chief Financial Officer Enstar (US) Inc.
Teresa Reali Cranston, RI	Assistant Vice President, Client Manager Enstar (US) Inc.
Raymond Rizzi Warwick, RI	Vice President Enstar (US) Inc.
Richard C. Ryan Bradenton, FL	Executive Vice President Enstar (US) Inc.
Karl J. Wall Tierra Verde, FL	President and Chief Operating Officer Enstar (US) Inc.

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

As of December 31, 2013, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Steven Given	President and Chief Executive Officer
Teresa Reali	Treasurer and Chief Operating Officer
Joseph Follis	Vice President
Andrea Giannetta	Vice President
Thomas Balkan	Secretary

B. Territory and Plan of Operation

As of December 31, 2013, the Company was licensed to write business in New York only.

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 and 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
19	Motor vehicle and aircraft liability
20	Marine and inland marine
21	Marine protection and indemnity

The Company was also licensed to write such workers' compensation insurance as may be incidental 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 Workers' Compensation Act, (Public Law No. 803, 69th Congress), 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.

C. Reinsurance

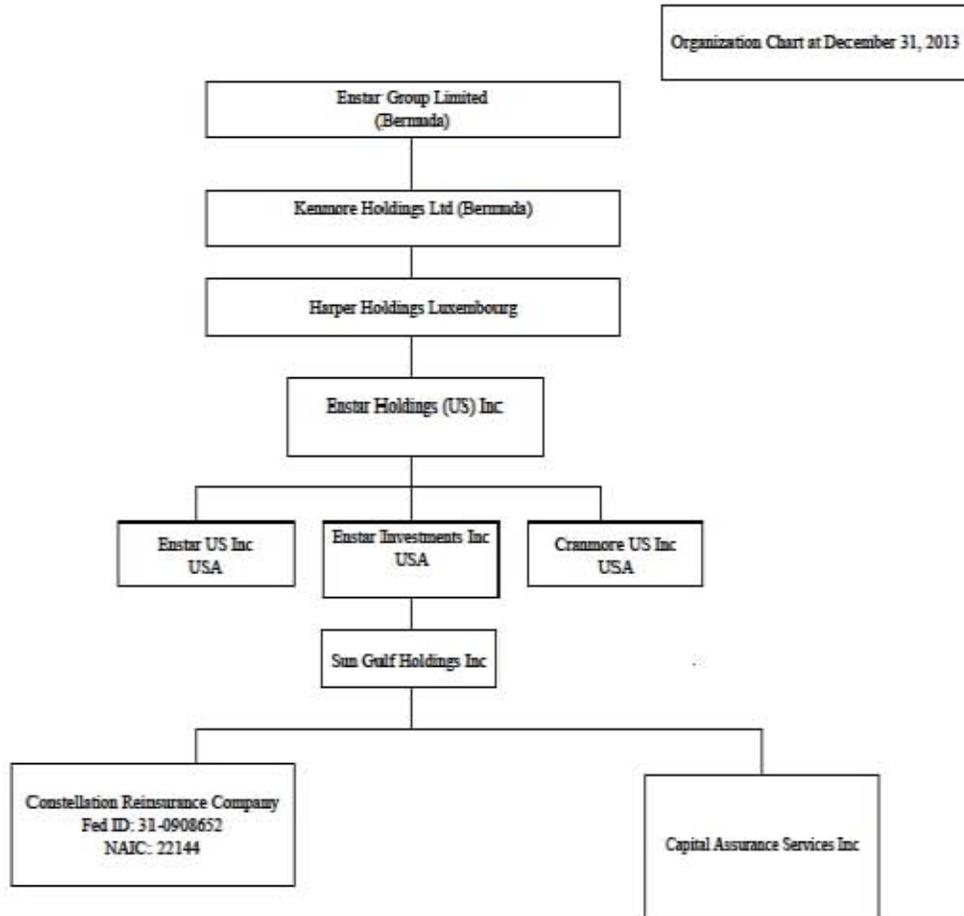
At the examination date the Company was in run-off status and therefore had no ceded reinsurance agreements with active cessions. There were ceded reinsurance agreements in run-off through which the Company took approximately \$2,282,000 in statutory credit offset by a provision for reinsurance of \$948,988.

Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions.

D. Holding Company System

The Company is a member of the Enstar Group. The Company is 100% owned by Sun Gulf Holdings which is ultimately controlled by Enstar Holdings. A review of the Holding Company Registration statements filed with this Department indicated that such filings were filed in a timely manner pursuant to Article 15 of the New York State Insurance Law and Regulation 52.

The following is an abridged chart of the holding company system as of December 31, 2013:



E. Significant Operating Ratios

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

Net premiums written to surplus as regards policyholders	2%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	77%
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.

F. Subsequent Events

On December 30, 2014, the Company was merged into Clarendon National Insurance Company, a company organized under the laws of Illinois. Clarendon was the surviving company after the merger. The merger was approved by the New York State Department of Financial Services and the Department of Insurance of the State of Illinois.

3. FINANCIAL STATEMENTS

A Balance Sheet

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

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$9,572,806	\$0	\$9,572,806
Cash, cash equivalents and short-term investments	4,335,297	0	4,335,297
Investment income due and accrued	53,901	0	53,901
Amounts recoverable from reinsurers	<u>1,673,475</u>	<u>0</u>	<u>1,673,475</u>
Total assets	<u>\$15,635,479</u>	<u>\$0</u>	<u>\$15,635,479</u>
 <u>Liabilities, surplus and other funds</u>			
Losses and loss adjustment expenses			\$ 7,773,104
Reinsurance payable on paid losses and loss adjustment expenses			1,913,219
Other expenses (excluding taxes, licenses and fees)			42,721
Provision for reinsurance			948,988
Payable to parent, subsidiaries and affiliates			<u>10,259</u>
Total liabilities			<u>\$10,688,291</u>
 <u>Surplus and Other Funds</u>			
Common capital stock			\$2,350,000
Gross paid in and contributed surplus			5,150,000
Unassigned funds (surplus)			<u>(2,552,810)</u>
Surplus as regards policyholders			<u>4,947,190</u>
Total liabilities, surplus and other funds			<u>\$15,635,481</u>

B. Statement of Income

The net loss, for the four-year examination period, was \$6,068,043 as detailed below:

Underwriting Income

Premiums earned \$ 84,988

Deductions:

Losses and loss adjustment expenses incurred \$5,873,472

Other underwriting expenses incurred 1,539,975

Total underwriting deductions 7,413,447

Net underwriting gain or (loss) \$(7,328,459)

Investment Income

Net investment income earned \$372,066

Net realized capital gain 14,255

Net investment gain or (loss) 386,321

Other Income

Aggregate write-ins for miscellaneous income \$ 21,675

Total other income 21,675

Net income after dividends to policyholders but before federal
and foreign income taxes \$(6,920,463)

Federal and foreign income taxes incurred (852,420)

Net Loss \$(6,068,043)

C. Capital and Surplus Account

Surplus as regards policyholders increased \$1,382,569 during the four-year examination period January 1, 2010 through December 31, 2013, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31, 2009			\$3,564,619
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income		\$6,068,043	
Change in net deferred income tax		216,841	
Change in nonadmitted assets	\$ 216,841		
Change in provision for reinsurance	2,450,615		
Surplus adjustments paid in	<u>5,000,000</u>	<u>0</u>	
Total gains and losses in surplus	<u>\$7,667,456</u>	<u>\$6,284,884</u>	
Net increase (decrease) in surplus			<u>1,382,571</u>
Surplus as regards policyholders per report on examination as of December 31, 2013			<u>\$4,947,190</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$7,773,104 is the same as reported by the Company as of December 31, 2013. The examination analysis of the Loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 (“SSAP No. 55”).

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Management</u></p> <p style="margin-left: 40px;"><u>Board of Directors</u> It is recommended that the board of directors hold the requisite number of regular meetings as set forth in its by-laws. A similar comment was made in the prior report on examination.</p> <p style="margin-left: 40px;">The Company has complied with this recommendation.</p>	5
<p>B. <u>Holding Company System</u></p> <p style="margin-left: 40px;">It is recommended that, in the future, the Company adhere to the provisions of Department Circular Letter No. 33 (1979).</p> <p style="margin-left: 40px;">This recommendation is no longer applicable as the Company did not enter into any inter-company agreements during the exam period.</p>	9
<p>C. <u>Accounts and Records</u></p> <p style="margin-left: 40px;">It is recommended that the Company maintain records supporting the allocation of salary and any other expenses in accordance with Department Regulation 30, Part 106.</p> <p style="margin-left: 40px;">The Company has complied with this recommendation.</p>	10

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report contains no comments or recommendations.

Respectfully submitted,

_____/s/
Susan Weijola
Senior Insurance Examiner

STATE OF NEW YORK)
)SS:
COUNTY OF NEW YORK)

SUSAN WEIJOLA, being duly sworn, deposes and says that the foregoing report, subscribed by her,
is true to the best of his knowledge and belief.

_____/s/
Susan Weijola

Subscribed and sworn to before me

this _____ day of _____, 2014.

APPOINTMENT NO. 31203

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:*

Susan Weijola

as a proper person to examine the affairs of the

Constellation Reinsurance 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 9th day of July, 2014

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:



Rolf Kaumann
Deputy Chief Examiner

