# REPORT ON EXAMINATION

# OF THE

# GREATER NEW YORK MUTUAL INSURANCE COMPANY

# AS OF

# DECEMBER 31, 2013

| | |
|---|---|
| DATE OF REPORT | JANUARY 28, 2015 |
| EXAMINER | MARY MEANEY |

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Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

January 28, 2015

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 31194 dated May 8, 2014, attached hereto, I have made an examination into the condition and affairs of Greater New York Mutual Insurance 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 Greater New York Mutual 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 home office located at 200 Madison Avenue, New York, NY 10016.

## 1. SCOPE OF EXAMINATION

The Department has performed an examination of Greater New York Mutual Insurance Company, a multi-state insurer. This was a coordinated group examination of the Company and its three insurance company subsidiaries ("Greater New York Group"). The previous examination was conducted as of December 31, 2008. This examination covered the five year period from January 1, 2009 through December 31, 2013. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

New York was the coordinating state for the examination of the Greater New York Group. The State of Arizona participated in the examination. The examination was performed concurrently with the examinations of the following insurers: Insurance Company of Greater New York ("INSCO"), Strathmore Insurance Company ("Strathmore"), and GNY Custom Insurance Company ("GNYCIC"). The Company, INSCO, and Strathmore are domiciled in New York State while GNYCIC is domiciled in Arizona.

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. 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
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

Greater New York Mutual Insurance Company was formed on August 29, 1927 under the laws of State of New York as the "Greater New York Taxpayers Mutual Insurance Associations" and commenced business on November 1, 1927. Its operations were previously conducted for a period of approximately fifteen years as a membership corporation. As such, it afforded public liability coverage to property owners in the Greater New York area. Its present name was adopted on March 17, 1954.

### 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 nor more than thirteen members. The board met at least four times during each calendar year. At December 31, 2013, the board of directors was comprised of the following eleven members:

| Name and Residence | Principal Business Affiliation |
|---|---|
| Donald T. DeCarlo<br>Douglaston, NY | Self-employed,<br>Attorney |
| Larry L. Forrester<br>Englewood, FL | Retired |
| Warren W. Heck<br>New York, NY | Chairman of the Board and Chief Executive Officer,<br>Greater New York Mutual Insurance Company |
| Carol T. Ivanick<br>New York, NY | Partner of Counsel,<br>Schulte Roth & Zabel |
| Charles F. Jacey, Jr.<br>Belle Meade, NJ | Retired |
| Elizabeth Heck<br>New York, NY | President and Chief Operating Officer,<br>Greater New York Mutual Insurance Company |
| Robert P. Lewis<br>Santa Fe, NM | Retired |
| Lance M. Liebman<br>New York, NY | Dean & Professor,<br>Columbia Law School |
| Henry G. Miller<br>Bronxville, NY | Senior Partner,<br>Clark, Gagliardi & Miller LLP |
| Paul Segal<br>New York, NY | Architect,<br>Paul Segal, FAIA, Architect |
| Thomas W. Synnott, III<br>Brooklyn, NY | Economist,<br>Garrison Bradford & Associates |

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:

| Name | Title |
|---|---|
| Warren W. Heck | Chairman of the Board and Chief Executive Officer |
| Elizabeth Heck | President and Chief Operating Officer |
| Thomas D. Hughes | Executive VP & General Counsel, Corporate Secretary |
| Gerard Ragusa | Executive Vice President – Claims |
| Christopher McNulty | Senior Vice President, Treasurer & Chief Financial Officer |
| Martin Brezner | Senior Vice President & Chief Underwriting Officer |

## B. Territory and Plan of Operation

As of December 31, 2013, the Company was licensed to write business in all states and the District of Columbia except in the states of Alaska, California, Florida, Hawaii, Maine and Texas.

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:

| Paragraph | Line of Business |
|---|---|
| 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 licensed to transact the kinds of insurance and reinsurance as defined in Section 4102(c) of the New York Insurance Law. Furthermore, pursuant to Section 6302 of the New York Insurance Law, the Company is licensed to write special risks in the “Free Trade Zone.”

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 $35,000,000.

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

| Calendar Year | New York State | Total Premiums | Premiums Written in New York State percentage of Total Premiums |
|---|---|---|---|
| 2009 | $92,590,805 | $180,722,845 | 51.23% |
| 2010 | $87,382,720 | $167,274,790 | 52.24% |
| 2011 | $83,989,691 | $159,784,066 | 52.56% |
| 2012 | $84,964,347 | $165,538,997 | 51.33% |
| 2013 | $90,331,466 | $178,040,154 | 50.74% |

The majority (approximately 92%) of the Company's business is written in New York, New Jersey, Massachusetts, Pennsylvania and Illinois. Commercial multiple peril ("CMP") is the Company's dominant line of business, which comprised approximately 95% of total direct business written. Most of the business originates through independent brokers. The Company maintains branch offices in Glastonbury, CT; East Brunswick, NJ; Quincy, MA; and Hunt Valley, MD. Each office handles the underwriting function for its specific territory. Claims are generally handled out of the corporate office with smaller operations in East Brunswick and Glastonbury, CT.

## C. Reinsurance

### Assumed Reinsurance

The Company is primarily a direct writer. The Company's assumed reinsurance consists mainly of business obtained through its pooling agreement with its subsidiaries. The Company assumes minimal amounts of non-affiliated premiums. The Company utilizes reinsurance accounting as defined in Statement of Statutory Accounting Principle ("SSAP") No. 62R for all of its assumed reinsurance business.

### Intercompany Pooling Agreement

The Company is the lead company in a pooling agreement with its subsidiaries. This agreement has been in place since 1968, when it was approved by the Department. The four companies comprising the Greater New York Group share business written through a reinsurance pooling arrangement apportioned 84% to the Company, 10% to INSCO, 5% to Strathmore, and 1% to GNYCIC. All business is assumed by the Company and then reinsured externally before being ceded back to affiliates based on their percentage participation in the pooling agreement.

Ceded Reinsurance

The Company and its subsidiaries ("The Pool") have structured their ceded reinsurance program to limit their maximum exposure to any one risk as follows:

Property

The Pool's ceded reinsurance program for its property business limits its maximum exposure in any one risk to $1,000,000 (of which the Company's share is 84%). The Pool maintains several excess of loss coverage treaties for standard losses, catastrophe, related losses, and terrorism related losses. Its standard excess of loss treaties for property consists of five layers with the following layers of coverage:

| Type of Treaty | Cession |
|---|---|
| Property Excess of Loss - Five layers as follows: | $69,000,000 excess of $1,000,000 per risk |
| 1st Layer - 100% authorized | $4,000,000 excess of $1,000,000 per risk |
| 2nd Layer - 100% authorized | $5,000,000 excess of $5,000,000 per risk |
| 3rd Layer - 83% authorized | $15,000,000 excess of $10,000,000 per risk |
| 4th Layer- 93% authorized | $15,000,000 excess of $25,000,000 per risk |
| 5th Layer - 88% authorized | $30,000,000 excess of $40,000,000 per risk |

The Pool also maintains excess of loss coverage for property losses resulting from catastrophe events consisting of three layers whereby it cedes 95% of losses in excess of $15,000,000 each and every loss occurrence.

| Type of Treaty | Cession |
|---|---|
| Property Catastrophe Excess of Loss – Three layers as follows: | 95% of $225,000,000 excess of $15,000,000 per occurrence |
| 1st Layer - 42% authorized | 95% of $25,000,000 excess of $15,000,000 |
| 2nd Layer - 52% authorized | 95% of $75,000,000 excess of $40,000,000 |
| 3rd Layer - 45% authorized | 95% of $125,000,000 excess of $115,000,000 |

In addition, the Company and its subsidiaries are party to three terrorism aggregate excess of loss agreements. The Pool's retention on the first layer is $20 million each occurrence with the reinsurers liable for $37 million above retention. The second layer covers 15% of $223 million excess $57 million. The third layer covers 15% of $166,666,667 excess $280 million. The business on all layers was ceded approximately 90% to authorized reinsurers.

Casualty Lines

The Pool has structured its ceded reinsurance program for its casualty lines of business to limit its maximum exposure in any one risk to $1,000,000 (of which the Company's share is 84%). The Pool maintains three layers of excess of loss treaties consisting of the following layers of coverage:

| Type of Treaty | Cession |
|---|---|
| Casualty Excess of Loss - Three layers as follows: | $49,000,000 excess of $1,000,000 per occurrence |
| 1st Layer - 100% authorized | $4,000,000 excess of $1,000,000 |
| 2nd Layer - 100% authorized | $15,000,000 excess of $5,000,000 |
| 3rd Layer - 100% authorized | 50% of $30,000,000 excess of $20,000,000 |

The Pool also maintains the following reinsurance treaties:

| Type of Treaty | Cession |
|---|---|
| Umbrella liability - Quota Share, provided in 2 parts as follows: | |
| Part 1 - 100% authorized | 95% per policy not exceeding $1,000,000 |
| Part 2 - 100% authorized | 100% cession $14,000,000 excess $1,000,000 |
| Fidelity and Surety Quota Share 100% authorized | 80% per policy up to $1,000,000 |
| Boiler and Machinery Quota Share 100% authorized | 100% cession |
| Employment Practices Liability 100% authorized | 100% up to $100,000 per policy |
| Identity Recovery Coverage 100% authorized | 100% up to $15,000 annual aggregate per policy |

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers.

All ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62R. Representations were supported by an attestation from the Company's Chief Executive Officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in paragraphs 18 through 25 of SSAP No. 62R.

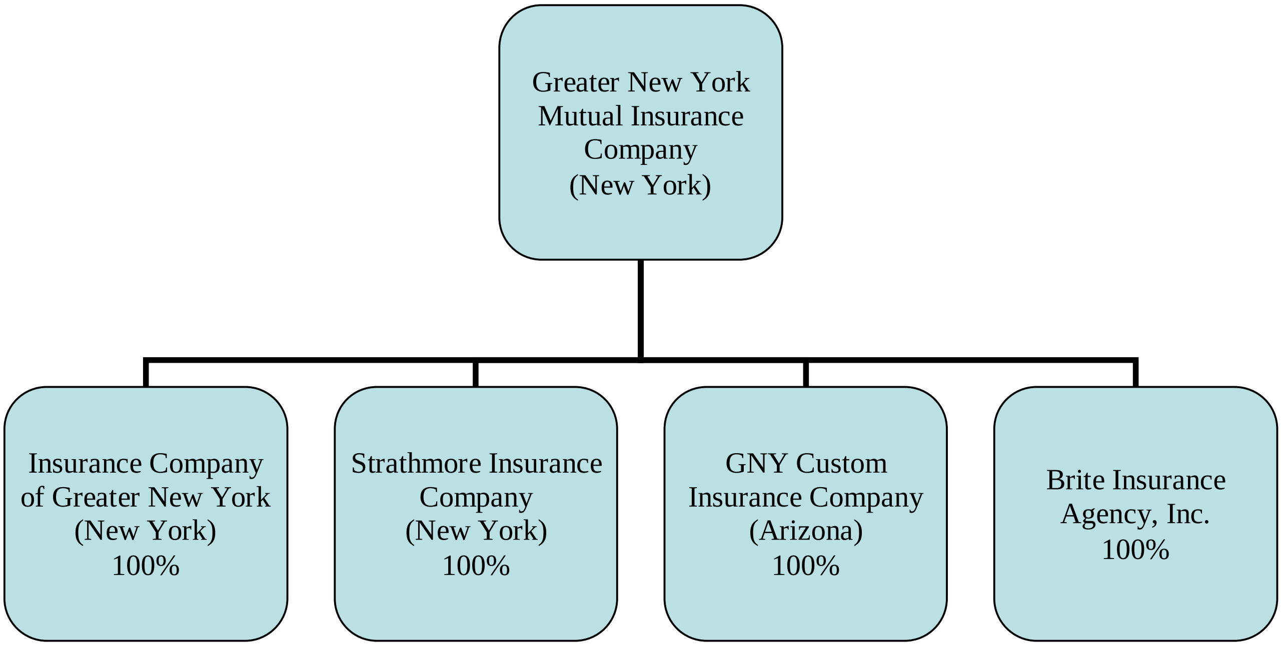
## D. Holding Company System

The Company owns 100% of the stock of two New York domiciled insurers: INSCO and Strathmore. The Company also owns 100% of the stock of an Arizona domiciled insurance company GNYCIC. Additionally, the Company owns an insurance agency, Brite Insurance Agency, Inc., a New York Corporation.

Pursuant to Section 1502(a) of the New York Insurance Law, the Company is exempt from the filing requirements of Article 15. However, pursuant to Department Circular Letter No. 10 (2010), every domestic insurer that is exempt from the provisions of Article 15 of the New York Insurance Law is required to file with the Department the information contained in NAIC Form B within 120 days following the close of the ultimate holding company’s fiscal year.

A review of the NAIC Form B (Insurance Holding Company System Annual Registration Statement) filings indicated that such filings were complete and were filed in a timely manner pursuant to Department Circular Letter No. 10 (2010).

The following is a chart of the holding company system at December 31, 2013:




At December 31, 2013, the Company was party to the following inter-company agreements:

1. A pooling agreement with its subsidiaries, referenced in the reinsurance section of this report, which has been approved by the Department.

2. A tax allocation agreement with its subsidiaries. The agreement is in accordance with Department Circular Letter No. 33 (1979).

3. A service agreement with Brite Insurance Agency.

<u>Agency Agreement with Brite Insurance Agency</u>

The Company has an agreement with its affiliated agency, Brite Insurance Agency ("Brite"), which requires costs to be allocated based on actual time spent on Brite matters. However, Brite currently pays the Company a flat fee of $255,000 per year which is payable on a quarterly basis. It is recommended that the Company settle expenses with Brite per the terms of the service agreement.

## 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 | 47% |
| Liabilities to liquid assets (cash and invested assets less investments in affiliates) | 64% |
| Premiums in course of collection to surplus as regards policyholders | 6% |

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:

| | Amounts | Ratios |
|---|---|---|
| Losses and loss adjustment expenses incurred | $652,277,357 | 73.16% |
| Other underwriting expenses incurred | 304,313,572 | 34.13 |
| Net underwriting loss | (65,062,904) | (7.30) |
| Premiums earned | $891,528,025 | 100.00% |

# 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:

| Assets | Assets | Assets Not Admitted | Net Admitted Assets |
|---|---|---|---|
| Bonds | $548,302,003 | | $548,302,003 |
| Common stocks (stocks) | 172,896,806 | | 172,896,806 |
| Cash, cash equivalents and short-term investments | 37,983,660 | | 37,983,660 |
| Investment income due and accrued | 3,383,774 | | 3,383,774 |
| Uncollected premiums and agents' balances in the course of collection | 26,809,993 | $ 342,071 | 26,467,922 |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 42,225,104 | 58,385 | 42,166,719 |
| Amounts recoverable from reinsurers | 3,050,073 | 0 | 3,050,073 |
| Net deferred tax asset | 23,879,654 | 7,230,081 | 16,649,573 |
| Electronic data processing equipment and software | 557,497 | 158,092 | 399,405 |
| Furniture and equipment, including health care delivery assets | 264,403 | 264,403 | 0 |
| Receivables from parent, subsidiaries and affiliates | 863,503 | 0 | 863,503 |
| Company owned life insurance | 11,231,777 | 0 | 11,231,777 |
| Miscellaneous assets | 353,778 | 3,857 | 349,921 |
| Total assets | $871,802,025 | $8,056,889 | $863,745,136 |

Liabilities, surplus and other funds

Liabilities

| | | |
|---|---|---|
| Losses and Loss Adjustment Expenses | | $305,911,006 |
| Commissions payable, contingent commissions and other similar charges | | 709,265 |
| Other expenses (excluding taxes, licenses and fees) | | 9,775,586 |
| Taxes, licenses and fees (excluding federal and foreign income taxes) | | 241,827 |
| Current federal and foreign income taxes | | 925,003 |
| Unearned premiums | | 120,904,463 |
| Policyholders (dividends declared and unpaid) | | 319,948 |
| Ceded reinsurance premiums payable (net of ceding commissions) | | 816,509 |
| Amounts withheld or retained by company for account of others | | 2,061,831 |
| Provision for reinsurance | | 336,175 |
| Liability for pension benefits | | 5,290,906 |
| Other liabilities | | 1,919,797 |
| Total liabilities | | $449,212,316 |
| Surplus and other funds | | |
| Special contingent surplus | $ 1,700,000 | |
| Unassigned funds (surplus) | 412,832,820 | |
| Surplus as regards policyholders | | 414,532,820 |
| Total liability, surplus and other funds | | $863,745,136 |

Note: The Internal Revenue Service has completed its audits of the Company's federal income tax returns covering tax years 2009 - 2011. 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

| | | |
|---|---|---|
| Underwriting Income | | |
| Premiums earned | | $891,528,025 |
| Deductions: | | |
| Losses and loss adjustment expenses incurred | $652,277,357 | |
| Other underwriting expenses incurred | 304,313,572 | |
| Total underwriting deductions | | 956,590,929 |
| Net underwriting gain or (loss) | | $(65,062,904) |
| Investment Income | | |
| Net investment income earned | $100,543,927 | |
| Net realized capital gain | 1,064,492 | |
| Net investment gain or (loss) | | 101,608,419 |
| Other Income | | |
| Net gain or (loss) from agents' or premium balances charged off | $ 923,526 | |
| Finance and service charges not included in premiums | 720,812 | |
| Aggregate write-ins for miscellaneous income | 2,741,775 | |
| Total other income | | 4,386,113 |
| Net income before dividends to policyholders and before federal and foreign income taxes | | $40,931,628 |
| Dividends to policyholders | | 340,573 |
| Net income after dividends to policyholders but before federal and foreign income taxes | | $40,591,055 |
| Federal and foreign income taxes incurred | | 5,126,980 |
| Net Income | | $35,464,075 |

C. Capital and Surplus Account

Surplus as regards policyholders increased $57,441,074 during the five-year examination period January 1, 2009 through December 31, 2013, detailed as follows:

| | Gains in Surplus | Losses in Surplus | |
|---|---|---|---|
| Surplus as regards policyholders per report on examination as of December 31, 2008 | | | $357,091,746 |
| Net income | $35,464,075 | | |
| Net unrealized capital gains or (losses) | 20,031,596 | | |
| Change in net deferred income tax | 4,922,138 | | |
| Change in non-admitted assets | 3,397,356 | | |
| Change in provision for reinsurance | | 25,968 | |
| Cumulative effect of changes in accounting principles | | 16,924,954 | |
| Aggregate write-ins for gains and losses in surplus | 10,576,831 | 0 | |
| | $74,391,996 | $16,950,922 | |
| Net increase (decrease) in surplus | | | 57,441,074 |
| Surplus as regards policyholders per report on examination as of December 31, 2013 | | | $414,532,820 |

## 4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $305,911,006 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. SUBSEQUENT EVENTS

There were no significant subsequent events for this Company. The Company's December 31, 2014 reported surplus of $430,833,429 was $16,300,609 greater than the $414,532,820 reported in this examination report. This increase was primarily driven by the $15,626,534 in net income reported in 2014. It is additionally noted that:

1. The Company reported, in its 2014 annual statement, a one year positive development on its loss and loss adjustment expense reserves of $2,705,000.

2. The Company's 2014 direct premium writings in its commercial multiple peril line, increased by $18,548, 387 to $187,845,729 from the $169,297,342 reported in 2013. This represents an increase of 10.96%. The net written premiums increased to $204,175,007 representing an increase of 9.26% from the $186,872,641 reported in 2013.

## 6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

| ITEM | | PAGE NO. |
|---|---|---|
| A. | Holding Company | |
| | It was recommended that the Company file its annual holding company registration statements in a timely manner pursuant to the provisions of Department Circular Letter No. 17 (2001). | 10 |
| | The Company has complied with this recommendation. | |
| B. | It was recommended that the Company comply with Department Regulation 64 and respond to all complaints forwarded by the Department within ten business days. | 16 |
| | The Company has complied with this recommendation. | |

## 7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

| ITEM | | PAGE NO. |
|---|---|---|
| A | Holding Company | |
| | It is recommended that the Company settle expenses with Brite Insurance Agency per the terms of the service agreement. | 10 |

Respectfully submitted,

_________________________
Mary Meaney
Associate Insurance Examiner

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

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

_________________________
Mary Meaney

Subscribed and sworn to before me

this_________ day of __________________, 20xx.

*APPOINTMENT NO. 31194*

*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:*

***Mary Meaney***

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

***Greater New York Mutual 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 8th day of May, 2014*

*BENJAMIN M. LAWSKY*
*Superintendent of Financial Services*

*By:*

*Rolf Kaumann*
*Deputy Chief Examiner*