

REPORT ON EXAMINATION

OF

ALEA NORTH AMERICA INSURANCE COMPANY

AS OF

DECEMBER 31, 2015

DATE OF REPORT

DECEMBER 27, 2016

EXAMINER

MOHAMMED RAB

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

December 27, 2016

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 31420, dated January 29, 2016, attached hereto, I have made an examination into the condition and affairs of Alea North America Insurance Company as of December 31, 2015, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Alea North America 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 5 Batterson Park Road, Farmington, CT 06032.

1. SCOPE OF EXAMINATION

The Department has participated in a coordinated group examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2011. This examination covered the four-year period from January 1, 2012 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 Connecticut, which examined SPARTA Insurance Company. The companies operate under common management and the systems and practices of conducting business are integrated except for the actuarial and the claims function.

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 where deemed appropriate.

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

- Company history
- Corporate records
- Management and control
- Fidelity bonds and other insurance
- Territory and plan of operation
- Loss experience
- Reinsurance

Accounts and records
Financial statements
Summary of recommendations

A review was also made to ascertain what actions were taken by the Company with regards 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, rules, or that are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Company was formed under the name of Metropolitan Fire Reinsurance Company in 1932 as a result of the merger of the Fire Reassurance Company of New York and the Metropolitan Fire Insurance Company of New York. It became licensed on June 30, 1932, and commenced business on the same day. In 1946, the Company changed its name to Metropolitan Fire Assurance Company and in 1980 it changed its name to American Independent Reinsurance Company.

In 1989, the Company was acquired by Great American Insurance Company and in 1992 it changed its name to Seven Hills Insurance Company.

On July 2, 2001, the Company was acquired by Alea Holdings US Company (“Alea Holdings”), a Delaware holding company. The Company adopted its current title effective August, 2001.

In the Fall of 2005, both Standard and Poor’s and A.M. Best took rating actions with respect to the Alea Group and its member companies, including Alea North America Insurance Company. As a consequence, the Alea Group announced its transition into run-off, citing principally its inability to attract a suitable volume and quality of business following the rating agency downgrades in the latter part of 2005. The Company withdrew from the U.S. casualty reinsurance business in November 2005. It also placed its direct (primary) insurance operation (Alternative Risk Division) into run-off in November 2005.

On May 18, 2011, FIN Acquisition Limited, a new intermediate holding company acquired all the issued and outstanding stocks of Alea Group Holdings (Bermuda) Ltd., the Company's ultimate holding company.

On March 19, 2014, the Department approved the transaction between FIN Acquisition Limited and Catalina Bulldog Merger Limited and Catalina Holdings (Bermuda) Limited ("Catalina") by which Catalina purchased all of the shares of Alea Group Holdings (Bermuda) Ltd., the ultimate parent of the Company. This transaction closed on March 28, 2014. As a result, the ultimate parent of the Company is now Catalina Holdings (Bermuda) Limited.

Capital paid in is \$4,880,012 consisting of 36,418 shares of \$134 par value per share common stock. Gross paid in and contributed surplus is \$122,883,077. On August 30, 2012, the Company redeemed 6,193 shares of its capital stock from its parent and sole shareholder, Alea Holdings US Company, at a total cost of \$20,001,904, or \$3,229.76 per share. Also, on August 13, 2015, the Company repurchased 9,333 shares of its capital stock from its parent and sole shareholder, Alea Holdings US Company, at a total cost of \$20,001,459, or \$2,143.09 per share. Gross paid in and contributed surplus and capital paid in decreased by \$37,922,879 during the examination period, as follows:

<u>Year</u>	<u>Description</u>	<u>Gross paid in and contributed surplus</u>	<u>Common Capital Stock</u>
2012	Beginning balance	\$160,805,956	\$ 6,960,496
2012	Stock redemption	(19,172,042)	(829,862)
2015	Stock redemption	<u>(18,750,837)</u>	<u>(1,250,622)</u>
2015	Ending balance	<u>\$122,883,077</u>	<u>\$ 4,880,012</u>

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. 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>
Martha Graeme Bannerman Greenwich, CT	General Counsel, Quanta Indemnity Company

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Susan Stonehill Claflin East Haddam, CT	General Counsel, Alea North America Company, SPARTA Insurance Company and Danielson Insurance Company
Christopher John Fleming Berkhamsted, UK	Chief Financial Officer, Catalina Holdings (Bermuda) Limited
Gerald Sidney Haase New York, NY Peter Durwood Johnson Highlands, NJ	Chief Operating Officer, Alea North America Insurance Company Chief Operating Officer, Catalina Holdings (Bermuda) Limited
Keith Andrew Lyon Melbourne, UK	General Counsel, Catalina Holdings (Bermuda) Limited
Dawne Ellen Ware Farmington, CT	President, Catalina US Insurance Services LLC

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

<u>Name</u>	<u>Title</u>
Dawne Ellen Ware	President and Chief Executive Officer
Susan Stonehill Claflin	Senior Vice President, General Counsel and Secretary
Tracey Ann Price	Senior Vice President and Chief Financial Officer
Duncan Campbell McBeath	Treasurer

B. Territory and Plan of Operation

As of December 31, 2015, the Company was licensed to write business in all fifty states and the District of Columbia.

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

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.

Prior to placing itself in run-off the majority of the Company's direct premium writings consisted primarily of the following lines of business: workers' compensation, commercial multi-peril and commercial auto liability. Management of the Company's run-off business is performed by numerous third-party administrators ("TPAs") and Alea personnel. The Company continually evaluates consolidating TPAs, where appropriate, in order to improve claims management efficiency.

C. Reinsurance

Assumed

The Company has been in run-off since late 2005. When the Company was active, its assumed reinsurance program consisted mainly of casualty coverage assumed on quota share and excess of loss basis pursuant to the terms of facultative and treaty agreements with both authorized and unauthorized cedants. Additionally, the Company participated in various mandated pools. The Company utilizes reinsurance accounting as defined in the NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles (“SSAP”) No. 62 for all of its assumed reinsurance business.

Ceded

As of December 31, 2015, the Company reported \$48,904,000 in total reinsurance recoverables. The vast majority (80%) of recoverables are due from an affiliate, Catalina General Insurance Ltd. (Bermuda) (“Catalina”), formerly known as Alea Bermuda, Ltd. (“Alea Bermuda”). The Company participated in a flexible quota share agreement with Alea Bermuda pursuant to which the Company ceded 70% of its net exposure. As of December 31, 2015 the Company reported \$39,268,000 in total recoverables from Catalina, an affiliated unauthorized reinsurer, all of which is fully collateralized. The remaining recoverables are due from both authorized and unauthorized reinsurers. The Company reported \$8,190,000 in total recoverables due from authorized reinsurers and \$1,446,000 from various unauthorized reinsurers.

Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It is noted that all affiliated reinsurance agreements were filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit and trust accounts obtained by the Company to take credit for cessions to unauthorized reinsurers were reviewed for compliance with Department Regulations 133 and 114, respectively.

All significant ceded reinsurance agreements had been reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

The examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected 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. 62. Representations were supported by an attestation from the Company's Chief Executive Officer and Chief Financial 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 SSAP No. 62.

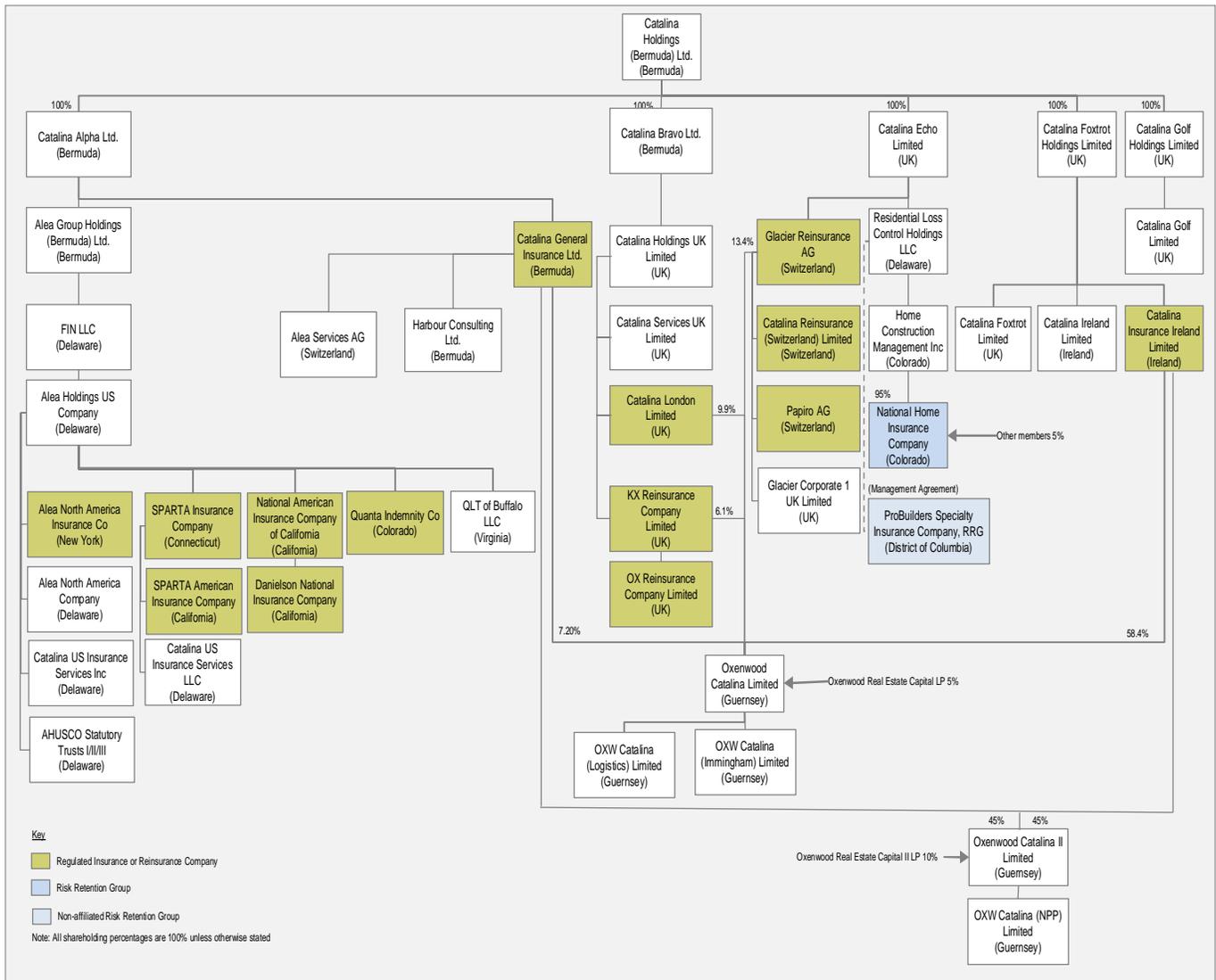
During the period covered by this examination, the Company commuted various reinsurance agreements where it is was a ceding/assuming reinsurer. These commutations did not result in a material change in the Company's surplus.

D. Holding Company System

The Company is a wholly-owned subsidiary of Alea Holdings US Company ("Alea Holdings"), a Delaware corporation. At December 31, 2015 Alea Holdings was 100% owned by FIN Acquisition LLC, an intermediate holding company, which is ultimately owned by Catalina Holdings (Bermuda) Ltd.

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

The following is a chart of the holding company system at December 31, 2015:



At December 31, 2015, the Company was party to the following agreements with other members of its holding company system:

1. First Amended Administrative Services Agreement

Effective March 11, 2015, the Company entered into an administrative services agreement with Alea Holdings US Company (“Alea Holdings”) and its affiliates. Pursuant to the terms of the agreement, Alea

Holdings agreed to provide various management and administrative services to the Company. This agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

2. Tax Allocation Agreement

Effective November 14, 2015, the Company entered into a tax allocation agreement with Alea Holdings US Company, and its affiliates. Pursuant to the agreement, the Company shall be included in the consolidated federal income tax return of the Group. The tax liability or refund under the agreement represents the amount the Company would pay or receive if it had filed a separate return with the Internal Revenue Service.

This agreement was non-disapproved by the Department pursuant to the provisions of Section 1505(d) of the New York Insurance Law.

E. Significant Operating Ratios

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

Adjusted liabilities to liquid assets (cash and invested assets less investment in affiliates)	22%
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The Company is in run-off status; therefore, the IRIS ratios related to premiums do not provide any relevant information and were not presented. The adjusted liabilities to liquid assets IRIS ratio falls within the benchmark range set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

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>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 70,185,688		\$70,185,688
Common stocks	10,656,253		10,656,253
Cash, cash equivalents and short-term investments	8,033,073		8,033,073
Other invested assets	8,999,847		8,999,847
Investment income due and accrued	544,741		544,741
Uncollected premiums and agents' balances in the course of collection	79,061	\$ 79,061	
Amounts recoverable from reinsurers	1,123,850		1,123,850
Funds held by or deposited with reinsured companies	18,000		18,000
Electronic data processing equipment and software	10,611	10,611	
Equities and deposits in pools associations	40,149		40,149
Cash advances to third party administrators	405,125	405,125	
Prepaid expense	<u>17,804</u>	<u>17,804</u>	<u> </u>
Total assets	<u>\$100,114,202</u>	<u>\$512,601</u>	<u>\$99,601,601</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$15,557,176
Reinsurance payable on paid losses and loss adjustment expenses	703,982
Commissions payable, contingent commissions and other similar charges	642,974
Other expenses (excluding taxes, licenses and fees)	400,385
Taxes, licenses and fees (excluding federal and foreign income taxes)	331,573
Ceded reinsurance premiums payable (net of ceding commissions)	552
Funds held by company under reinsurance treaties	1,364,716
Amounts withheld or retained by company for account of others	258,577
Provision for reinsurance	192,027
Payable to parent, subsidiaries and affiliates	197,758
Payable for securities	250,000
Retroactive reinsurance reserves	<u>(5,955)</u>
Total liabilities	\$19,893,765

Surplus and Other Funds

Common capital stock	\$ 4,880,012
Gross paid in and contributed surplus	122,883,077
Unassigned funds (surplus)	<u>(48,055,253)</u>
Surplus as regards policyholders	<u>79,707,836</u>
Total liabilities, surplus and other funds	\$ <u>99,601,601</u>

Note: The Internal Revenue Service has not audited tax returns covering tax years 2012 through 2015. 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 four-year examination period January 1, 2012 through December 31, 2015, was \$22,912,399 as detailed below:

Underwriting Income

Premiums earned		\$ 6,757
Deductions:		
Losses and loss adjustment expenses incurred	\$(1,224,350)	
Other underwriting expenses incurred	<u>30,953,249</u>	
Total underwriting deductions		<u>29,728,899</u>
Net underwriting gain or (loss)		\$(29,722,142)

Investment Income

Net investment income earned	\$22,653,309	
Net realized capital gain	<u>18,972,211</u>	
Net investment gain or (loss)		41,625,520

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ 246,104	
Amtrust renewal	10,500,000	
Miscellaneous income	<u>6,938</u>	
Total other income		\$ <u>10,753,042</u>
Net income before federal and foreign income taxes		\$ 22,656,420
Federal and foreign income taxes incurred		<u>(255,979)</u>
Net Income		\$ <u>22,912,399</u>

C. Capital and Surplus

Surplus as regards policyholders decreased \$11,486,480 during the four-year examination period January 1, 2012 through December 31, 2015, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31, 2011			\$ 91,194,316
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$22,912,399		
Net unrealized capital gains or (losses)	2,438,730		
Change in net deferred income tax	1,211,258		
Change in non-admitted assets	1,552,449		
Change in provision for reinsurance	402,047		
Capital changes paid in		2,080,484	
Surplus adjustments paid in	<u> </u>	<u>37,922,879</u>	
Total gains and losses	<u>\$28,516,883</u>	<u>\$40,003,363</u>	
Net decrease in surplus			<u>(11,486,480)</u>
Surplus as regards policyholders per report on examination as of December 31, 2015			<u>\$ 79,707,836</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$15,557,176 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 recommendations cited in the prior examination report are not applicable to the current examination due to the change in control and ownership that occurred in March of 2014. Therefore, the prior examination recommendations have not been reflected in this report on examination.

6. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

This report contains no comments or recommendations.

Respectfully submitted,

Mohammed Rab
Senior Insurance Examiner

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

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

Mohammed Rab

Subscribed and sworn to before me

this _____ day of _____, 2017.

APPOINTMENT NO. 31420

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, SHIRIN EMAMI, Acting 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:

Mohammed Rab

as a proper person to examine the affairs of the

Alea North America Insurance Company

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

COMPANY

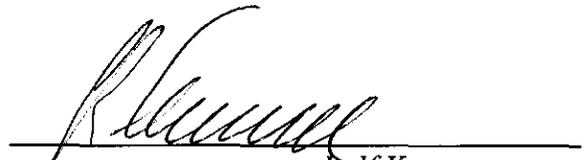
with such other information as he shall deem requisite.

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

this 29th day of January, 2016

*Shirin Emami
Acting Superintendent of Financial Services*

By:



*Rolf Kaumann
Deputy Chief Examiner*

