REPORT ON EXAMINATION

OF THE

STATE-WIDE INSURANCE COMPANY

AS OF

DECEMBER 31, 2003

DATE OF REPORT	SEPTEMBER 6, 2006
EXAMINER	VERONICA DUNCAN BLACK

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

September 6, 2006

Honorable Howard Mills
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 22113 dated December 29, 2003 attached hereto, I have made an examination into the condition and affairs of State-Wide Insurance Company as of December 31, 2003, and submit the following report thereon.

Wherever the designations "the Company" or "State-Wide" appear herein without qualification, they should be understood to indicate State-Wide 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 home office located at 20 Main Street, Hempstead, New York 11550-4038.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1999. This examination covered the four-year period from January 1, 2000 through December 31, 2003. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a complete verification of assets and liabilities as of December 31, 2003. 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 public accountants. 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:

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

State-Wide was incorporated under the laws of the State of New York on August 18, 1954 as the Truckman's Insurance Company. The Company was licensed on September 9, 1954 and commenced business on October 1, 1954.

By a Charter amendment dated July 30, 1956, and approved by the Superintendent on September 24, 1956, the Company changed its name from Truckman's Insurance Company to State-Wide Insurance Company.

Effective November 18, 1976, a former wholly-owned subsidiary, Banner Casualty, was absorbed by merger. On November 15, 1989, majority control (87.6%) of the Company was acquired through a tender offer, by SWICO Enterprises, Ltd., ("SWICO") a Delaware holding company.

The Company's paid up capital of $850,000 consists of 170,000 shares of common stock at $5.00 par value per share issued and outstanding. However, State-Wide has 185,000 shares authorized. The total gross paid in and contributed surplus as of December 31, 2003 was $924,800.

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 nor more than twenty one members. The board met four times during each calendar year. At December 31, 2003, the board of directors was comprised of the following fourteen members:

Name and Residence	Principal Business Affiliation
Renan Asuncion Plainview, NY	Vice President & Treasurer, State-Wide Insurance Company SWICO Enterprises, Ltd.
Michael Berken Massapequa, NY	Vice President, State-Wide Insurance Company
Joyce Factor St. James, NY	Retired
Anna Felson Garden City, NY	Vice President, Felson Enterprises, Inc.
Gerral E. Felson Garden City, NY	Chairman of the Board, President and Chief Executive Officer, State-Wide Insurance Company SWICO Enterprises, Ltd.
George Johnson Valhalla, NY	Consultant, Retired former Vice President and Claims Manager, State-Wide Insurance Company
Scott Koltun Plainview, NY	Attorney
Karly Lemberger Lloyd Neck, NY	Teacher, Nassau County BOCES
Ronald Lemberger Lloyd Neck, NY	Vice President, Secretary and Attorney, State-Wide Insurance Company SWICO Enterprises, Ltd.
Benjamin Mahler Garden City, NY	Attorney, Sr. Vice President & General Counsel, Park Tower Group a Real Estate Firm
Barbara Major Freehold, NJ	Certified Public Accountant and Consultant
Lewis Okser Brooklyn, NY	Financial Consultant
Larry Press Cedarhurst, NY	President, Larry Press Inc. Investigators and Adjustors, American Accredited Adjusters, Inc.,

Name and Residence	Principal Business Affiliation
Jeff Schumer Lutherville, MD	Vice President and Financial Consultant, Merrill Lynch

The minutes of all of the meeting of the board of directors held during the examination period were reviewed. A review of the minutes shows that the board held sixteen regular meetings during the period January 1, 2000 through December 31, 2003, and that such meetings were generally well attended by all members.

As of December 31, 2003, the principal officers of the Company were as follows:

Name	Title
Gerral. E. Felson	President
Ronald Lemberger	Secretary/Vice President
Renan Asuncion	Treasurer/Vice President
Michael Berken	Vice President
Ann Looney	Vice President

B. Territory and Plan of Operation

As of December 31, 2003, the Company was licensed to write business in the states of New York and New Jersey. During the period under examination, the Company wrote business only in the state of New York.

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
4	Fire
5	Miscellaneous property damage
6	Water damage
7	Burglary and theft
12	Collision
13	Personal injury liability

Paragraph	Line of Business
14	Property damage liability
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine

The following schedule shows the direct premiums written by the Company for the period under examination:

DIRECT PREMIUMS WRITTEN

Calendar year	Direct Premiums Written
2000	$21,196,833
2001	$26,409,106
2002	$31,862,740
2003	$39,594,400

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 $850,000.

The Company writes primarily automobile liability and physical damage coverage with a small percentage allocated to homeowners' coverage. The Company's main source of premiums is derived from its private passenger business, with such risks being concentrated in the New York metropolitan area. Most of the Company's business is produced through a network of independent brokers, with only a small percent of the business produced directly by the Company. The Company's premiums increased from 2000 to 2003 due to an increase in the number of cars insured and average rate increases of 7.0% in 2001 and 9.1% in 2003.

C. Reinsurance

As of December 31, 2003, State-Wide did not have a reinsurance program in place. The Company ended its last reinsurance treaty as of January 1, 1999, and elected to operate without reinsurance.

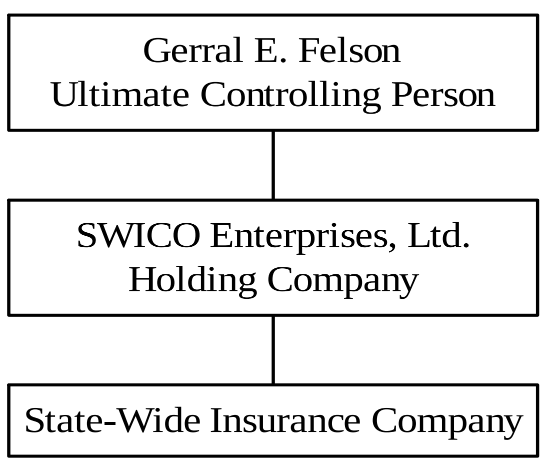
D. Holding Company System

The Company is 87.6% owned by, SWICO Enterprises, Ltd, a Delaware corporation, which is ultimately controlled by Gerral E. Felson.

On November 15, 1989, majority control of the State-Wide was acquired as a result of a tender offer made by SWICO to State-Wide's shareholders, who owned more than 100 shares of stock. The transaction provided SWICO's shareholders with controlling interest of approximately 87.6% or 149,446 shares of State-Wide's common stock, and the ultimate controlling person with 65% control interest or 110,612 shares of State-Wide.

As a member of a holding company system, the Company files registration statements pursuant to the requirements of Article 15 of the New York Insurance Law and Department Regulation 52. 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.

The following is a chart of the holding company system at December 31, 2003:



E. Abandoned Property Law

Section 1316 of the New York State Abandoned Property Law requires insurance companies to report to the Office of the State Comptroller annually on or before April 1, any property that is deemed abandoned and has been unclaimed for a three-year period. This filing is required by all insurers regardless of whether or not they have any abandoned property to report.

A review of the Company's records indicate that the Company has made the appropriate filings during the examination period and were on a timely basis pursuant to the provisions of Section 1316 of the New York State Abandoned Property Law.

F. Significant Operating Ratios

The following ratios have been computed as of December 31, 2003, based upon the results of this examination:

Net premiums written in 2003 to surplus as regards policyholders	109%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	64%
Premiums in course of collection to surplus as regards policyholders	25%

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 four-year period covered by this examination:

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$ 98,309,942	90.02%
Other underwriting expenses incurred	24,175,849	22.14
Net underwriting loss	(13,277,056)	(12.16)
Premiums earned	$109,208,735	100.00%

G. Accounts and Records

(i) Schedule P – Cumulative Number of Claims Reported

During the Department's actuarial review of the Company's Schedule P, it was noted that Schedule P - Part 1, Column 12 and Part 5 Section 3, was prepared incorrectly. Schedule P, Part 1, Column 12 and Part 5, Section 3 requires the reporting of cumulative numbers of claims reported direct and assumed at year-end.

According to the 2004 Property and Casualty Annual Statement Handbook, published by Brooke Seminars, Schedule P, Part 1, Column 12 should be reported as follows:

> "Column 12- Number of Claims Reported – Direct and Assumed- Claim counts reported here are cumulative claim counts. Claim count information should not be rounded to the nearest thousand. Actual claim units should be reported. Claim counts may be reported on per claim or per claimant basis (one accident with six injuries would constitute one claim or six claimants). An insurer should be consistent in its definition of a claim count. Schedule P, Interrogatory 6 inquires as to the method of counting claims. The number of claims reported as of the end of the current year for a given loss year can be derived as follows:
>
> Reconciliation of Cumulative Number of Claims Reported (Schedule P Data Sheets 6.xx)
>
> + Cumulative number of claims closed with loss payment (Sch P – Part 3, Column 11)
>
> + Cumulative number of claims closed without loss payment (Sch P – Part 3, Column 12)
>
> + Number of claims reported and currently outstanding (in case reserves) (Sch P – Part 1, Column 25)
>
> = Cumulative Number of claims reported (column 12)"

In addition, the NAIC Annual Statement Instructions Handbook for Part 5, Section 3, require the reporting of the number of claims, as previously reported in Part 1, Column 12 for 1989 and subsequent.

It appears that the Company's annual statement filings excluded the number of claims outstanding as required to be reported in Column 12 of the captioned section of Schedule P.

It is recommended in the future that the Company properly report the cumulative number of claims reported in Schedule P, Part 1, Column 12 and Part 5, Section 3 as required by the Brooke Property and Casualty Annual Statement Handbook.

(ii) Regulation 30 – Classification of Expenses

A review of the Company's compliance with Department Regulation 30, Part 105 and Statement of Statutory Accounting Principles ("SSAP") 70 was performed as part of this examination review. The captioned Regulation and SSAP establishes uniform expense allocation rules to classify expenses within prescribed principal grouping.

Based upon the examiner's review, it appears that the Company incorrectly classified its banking charges for insufficient funds to legal and auditing expenses instead of postage, telephone and telegraph, exchange and express expenses as required by Regulation 30.

It is recommended that the Company comply with Department Regulation 30, Part 105.18 and classify its banking charges for insufficient funds to postage, telephone and telegraph exchange and express expenses.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2003 and as reported by the Company:

		Examination		Company	
Assets	Assets	Assets Not Admitted	Net Admitted Assets	Net Admitted Assets	Surplus Increase (Decrease)
Bonds	$78,268,585	$ 21,977	$78,246,608	$78,246,608	$ 0
Common stocks	3,339,968	0	3,339,968	3,339,968	0
Other than first liens - mortgage loans on real estate	53,178	0	53,178	53,178	0
Properties occupied by the Company	851,129	0	851,129	851,129	0
Cash, cash equivalents and short-term investments	10,496,684	0	10,496,684	10,496,684	0
Investment income due and accrued	1,470,611	0	1,470,611	1,470,611	0
Uncollected premiums and agents' balances in the course of collection	425,418	181,431	243,987	243,987	0
Deferred premiums, agents' balances and installments booked but deferred and not yet due	8,769,743	0	8,769,743	8,769,743	0
Amounts recoverable from reinsurers	1,241		1,241	1,241	0
Current federal and foreign income taxes recoverable and interest thereon	18,726	0	18,726	18,726	0
Net deferred tax asset	1,765,730	0	1,765,730	0	1,765,730
Electronic data processing equipment and software	114,528	53,431	61,097	61,097	0
Furniture and equipment, including health care delivery assets	170,073	170,073		0	0
Contingent commission receivable	3,060		3,060	3,060	0
Deposit Motor Vehicle Bureau	25,654		25,654	25,654	0
Prepaid pension cost	808,764	808,764	0	0	0
Equities and deposit in pools and association	19,261		19,261	19,261	0
Miscellaneous receivables	1,037		1,037	1,037	
Totals	$106,603,390	$1,235,676	$105,367,714	$103,601,984	$1,765,730

Liabilities, Surplus and Other Funds

Liabilities	Examination	Company	Surplus Increase (Decrease)
Losses	$ 36,656,280	$ 36,656,280	$ 0
Loss adjustment expenses	10,902,177	10,902,177	0
Other expenses (excluding taxes, licenses and fees)	724,401	724,401	0
Taxes, licenses and fees (excluding federal and foreign income taxes)	279,185	279,185	0
Net deferred tax liability	0	868,632	868,632
Unearned premiums	20,182,628	20,182,628	0
Accounts payable	16,635	16,635	
Payable for unclaimed checks	269,331	269,331	0
Total liabilities	$ 69,030,637	$ 69,899,269	$ 868,632
Surplus and Other Funds			
Common capital stock	$ 850,000	$ 850,000	$ 0
Gross paid in and contributed surplus	924,800	924,800	0
Unassigned funds (surplus)	34,562,277	31,927,915	2,634,362
Surplus as regards policyholders	$ 36,337,077	$ 33,702,715	$2,634,362
Total liabilities surplus and other funds	$105,367,714	$103,601,984	$1,765,730

NOTE: The Company was not audited by the Internal Revenue Service during the period under examination. Any potential exposure of the Company to any tax assessment that may arise as a result of an IRS audit has not been established herein.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased $6,400,652 during the four-year examination period January 1, 2000 through December 31, 2003, detailed as follows:

Underwriting Income		
Premiums earned		$109,208,735
Deductions:		
Losses incurred	$66,841,237	
Loss adjustment expenses incurred	31,468,705	
Other underwriting expenses incurred	24,166,296	
Commercial limited assignment distribution	9,553	
Total underwriting deductions		122,485,791
Net underwriting gain or (loss)		$(13,277,056)
Investment Income		
Net investment income earned	$16,773,326	
Net realized capital gains	243,737	
Net investment gain or (loss)		17,017,063
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$ (419,418)	
Finance and service charges not included in premiums	3,636,960	
Late premium fees	1,056,442	
Miscellaneous income	(11,459)	
Shares in operations of pools and associations	4,473	
Late interest and penalty and assessment	(37,535)	
Total other income		4,229,463
Net income before dividends to policyholders and before federal and foreign income taxes		$ 7,969,470
Federal and foreign income taxes incurred		1,333,500
Net Income		$ 6,635,970

C. Capital and Surplus Account

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31,1999			$29,936,425
Net income	$6,635,970		
Net unrealized capital gains or (losses)		$ 527,737	
Change in net deferred income tax	2,862,403		
Change in non admitted assets		691,389	
Cumulative effect of changes in accounting principles		518,595	
Dividends to stockholders		1,360,000	
Total gains and losses	$9,498,373	$3,097,721	
Net increase (decrease) in surplus			6,400,652
Surplus as regards policyholders per report on examination as of December 31, 2003			$36,337,077

4 NET DEFERRED TAX ASSET

The examiner increased the admitted asset "Net deferred tax asset" ("DTA") in the amount of $1,765,730 and reduced the liability "Net deferred Tax Liability ("DTL") by $868,632. This represented a total increase in surplus of $2,634,362. The Company did not realize that Part 83.4(b) of Department Regulation 172 was amended on March 6, 2003 to allow the Company to take credit for its deferred tax asset.

Effective March 6, 2003, Department amended Regulation 172 financial statements filings and accounting practices and procedures. This amendment included the recognition of DTAs and DTLs in the statutory financial annual statement. The amendment required all insurers filing annual statements on or after December 31, 2002, to calculated gross DTA as an admitted asset in the following manner:

"Gross deferred tax assets shall be deemed admitted in an amount not to exceed the sum of:

(A) federal income taxes paid in prior years that can be recovered through loss carry backs for existing temporary differences that reverse by the end of the subsequent calendar year;

(B) the lesser of:

(i) the amount of gross deferred tax assets after the application of subparagraph (A) of this paragraph expected to be realized within one year of the balance sheet date, or

(ii) 10% of the insurers' statutory capital and surplus and surplus as required to be shown on the statutory balance sheet for its most recently filed statement with superintendent adjusted to exclude any net deferred tax assets, electronic data processing equipment, and goodwill as permitted by subdivision (t) of this section; and

(C) the amount of gross deferred tax assets after application of subparagraphs (A) and (B) of this paragraph that can be offset against existing gross deferred tax liabilities."

In reviewing the Company's financial statements, it was determined that the Company did not take credit for its gross admitted DTA pursuant to Department Regulation 172 Part 83.4(b) and SSAP 10. The Company's certified public accounting ("CPA") firm also confirmed that this asset was not reported and recomputed the gross admitted DTA for the period ended December 31, 2003. It was determined that the Company could admit a gross DTA of $2,634,362. This examination verified the CPAs calculation and adjusted the statement to allow the Company to admit this amount. For presentation purposes, the examiners reflected the admitted an amount for net deferred tax asset as $1,765,730 and eliminated the net deferred tax liability reflected as $868,632 in the Company's December 31, 2003 financial statement.

It is recommended that, in the future, the Company comply with the Department Regulation 172, Part 83.4 as amended on March 6, 2003 for financial statements required to be filed on or after December 31, 2002 as well as SSAP NO. 10 in reporting its net deferred tax asset.

5. <u>LOSSES AND LOSS ADJUSTMENT EXPENSES</u>

The examination liability for the captioned items of $47,558,457 is the same as reported by the Company as of December 31, 2003. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

6. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct investigation, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department.

The general review was directed at practices of the Company in the following areas:

A. Underwriting
B. Claims and complaint handling

No problem areas were encountered.

7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

ITEM		PAGE NO.
A.	Holding Company System	
i.	It its recommended that in accordance with Section 1506 of the New York Insurance Law, Gerral E. Felson should file for, and receive approval, to acquire control of State-Wide. The Company has complied with this recommendation.	7
ii.	It is recommended that State-Wide file certified financial statements for Gerral E. Felson in its annual holding company filing as required by Department Regulation 52. The Company has complied with this recommendation.	7
iii.	It is recommended that in future annual statement filings with this Department, Schedule Y should reflect Gerral E. Felson as the ultimate controlling person.	8

ITEM		PAGE NO.
	The Company has complied with this recommendation.	
B.	Fidelity Bond Insurance Coverage	
	It is recommended that the Company increases its fidelity bond insurance coverage from $350,000 to $450,000.	10
	The Department subsequently advised the Company that it would not require the Company to increase its fidelity bond coverage. Accordingly, this recommendation is no longer applicable.	
C.	Custodial Agreements	
	It is recommended that State-Wide amend its custodial agreement so that they contain the recommended protective covenants and provisions deemed by this Department to be representative of good business practice for the contents of such agreements.	12
	The Company has complied with this recommendation.	

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Accounts and Records	
i.	Schedule P – Cumulative Number of Claims Reported	10
	It is recommended in the future that the Company properly report the cumulative number of claims reported in Schedule P, Part 1, Column 12 and Part 5, Section 3 as required by the Brooke Property and Casualty Annual Statement Handbook.	
ii.	Regulation 30 – Classification of expenses	10
	It is recommended that the Company comply with Department Regulation 30, Part 105.18 and classify its banking charges for insufficient funds to postage, telephone and telegraph, exchange and express expenses.	
B.	Net Deferred Tax Asset	
	It is recommended that, in the future, the Company comply with the Department Regulation 172, Part 83.4 as amended on March 6, 2003 for financial statements required to be filed on or after December 31, 2002 as well as SSAP No. 10 in reporting its net deferred tax asset.	15

Respectfully submitted,

______________/s/_________
Veronica Duncan-Black
Senior Insurance Examiner

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

VERONICA DUNCAN-BLACK, being duly sworn, deposes and says that the foregoing report, subscribed to by her, is true to the best of her knowledge and belief.

______________/s/_________
Veronica Duncan-Black

Subscribed and sworn to before me

this_________ day of __________________, 2006.

Appointment No ***22113***

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, GREGORY V. SERIO, *Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

Veronica Duncan Black

as proper person to examine into the affairs of the

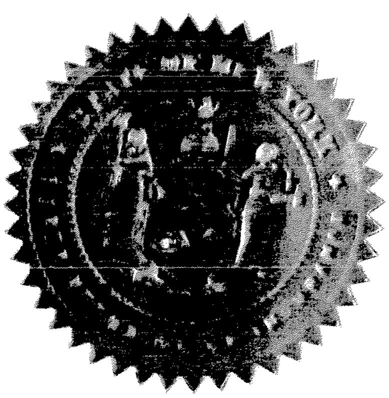
STATE-WIDE INSURANCE COMPANY

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

Company

with such other information as she 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 29th day *of December, 2003*

GREGORY V. SERIO
Superintendent of Insurance