

REPORT ON EXAMINATION

OF THE

GUILDERLAND REINSURANCE COMPANY

AS OF

DECEMBER 31, 2006

DATE OF REPORT

FEBRUARY 8, 2008

EXAMINER

SHEIK H. MOHAMED

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

February 8, 2008

Honorable Eric R. Dinallo
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 22683 dated October 11, 2007 attached hereto, I have made an examination into the condition and affairs of Guilderland Reinsurance Company as of December 31, 2006, and submit the following report thereon.

Wherever the designations "the Company" or "GRC" appear herein without qualification, they should be understood to indicate Guilderland Reinsurance 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 administrative offices located at Two Logan Square, Philadelphia, PA 19103.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 2001. This examination covered the five-year period from January 1, 2002 through December 31, 2006. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a verification of assets and liabilities as of December 31, 2006. 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 certified public accountants ("CPA"). 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 ("NAIC"):

- 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

The Company was organized in 1854 as the Guilderland Mutual Insurance Association ("Association"), an assessment cooperative fire insurance association. In 1940, it was reorganized to write fire reinsurance only. On April 1, 1969, the Association was converted to a mutual reinsurance company and renamed the Guilderland Mutual Reinsurance Company.

On September 22, 1969, the Department approved a merger between the Guilderland Mutual Reinsurance Company and the Mutual Windstorm Reinsurance Company. This merger was effective September 30, 1969, with Guilderland Mutual Reinsurance Company being the surviving corporation.

On December 18, 1990, the Company converted from a mutual property/casualty insurance company to a stock property/casualty insurance company pursuant to Section 7307 of the New York Insurance Law and changed its name to Guilderland Reinsurance Company. The Department approved the demutualization and the Company's amended and restated certificate of incorporation (charter) on that date. At that time, it was acquired by the Main Street America Financial Corporation, a wholly-owned subsidiary of National Grange Mutual Insurance Company. In November 1999, the Company was purchased by Excess Reinsurance Company, a Delaware insurer.

Paid in capital is \$2,051,960 consisting of 2,051,960 shares of \$1 par value per share common stock. The Company has 4,000,000 authorized shares. Gross paid in and contributed surplus is \$9,260,267 and is unchanged during the examination period.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than nineteen members. At December 31, 2006, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Tod James Carmony Wooster, OH	President, Wayne Mutual Insurance Company
Henry Hershberger Gibbel Lititz, PA	President and Chief Executive Officer, Lititz Mutual Insurance Company
Richard Hayden Harris Branchville, NJ	Director, Franklin Mutual Insurance Company
Francis Timothy Hegarty, Jr. Needham, MA	President and Chief Executive Officer, The Norfolk & Dedham Group
John Aldo Hervochon Washington Township, NJ	Chief Financial Officer and Treasurer, Cumberland Mutual Fire Insurance Company

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Thomas Snyder Inch Elizabethtown, PA	President, Farmers Mutual Insurance Company of Elizabethtown
Kent Warren Jones Woodstown, NJ	President and Chief Executive Officer, Farmers Mutual Fire Insurance Company of Salem County
Gregory Joseph Ostrowski Holmdel, NJ	Managing Director, Guy Carpenter & Company, LLC
Sandra Glaser Parrillo North Smithfield, RI	President, Providence Mutual Fire Insurance Company and Providence Plantation Insurance Company
Thomas Robert Ruane Ithaca, NY	President, Security Mutual Insurance Company
Steven Carl Sliver Huntington, PA	President, Mutual Benefit Insurance Company
Christopher Paul Taft Clinton, NY	President and Chief Operating Officer, Preferred Mutual Insurance Company
Robert Arthur Wadsworth New Berlin, NY	President and Chief Executive Officer, Preferred Mutual Insurance Company

The board meets four times during each calendar year. A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member has an acceptable record of attendance.

Conflict of interest statements signed, for the years for 2003, 2004, and 2006, by officers and directors of the Company were not available for review. A partial list was available for the year 2002. It is recommended that the Company maintain signed conflict of interest statements for each year subject to examination.

As of December 31, 2006, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Robert Arthur Wadsworth	President
Joseph Patrick Marlowe	Secretary & Treasurer
James Harvey Soper	Vice President

B. Territory and Plan of Operation

As of December 31, 2006, the Company was licensed to write business in New York as well as the following five states: Indiana, Iowa, Ohio, Pennsylvania, and Wisconsin.

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>
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
14	Property damage liability
15	Workers' compensation and employers' liability
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine

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 \$6,200,000.

As a professional reinsurer, the Company did not write a significant amount of direct premiums. In 2006, the Company reported no direct premium written. The Company is currently in runoff.

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

DIRECT PREMIUMS WRITTEN

<u>Calendar Year</u>	<u>New York State</u>	<u>Total United States</u>	<u>Premiums Written in New York State as a percentage of United States Premium</u>
2002	\$159,611	\$168,989	94.45%
2003	\$ 96,802	\$ 96,802	100.00%
2004	\$ 46,448	\$ 46,448	100.00%
2005	\$ 15,858	\$ 15,858	100.00%
2006	\$ 0	\$ 0	0.00%

C. Reinsurance

The Company did not report any assumed reinsurance at December 31, 2006. During the period covered by this examination, the Company's assumed reinsurance business has decreased since the last examination. The Company's assumed reinsurance program consisted mainly of property and casualty coverage assumed on a quota share and excess of loss basis, pursuant to the terms of facultative and treaty agreements with both authorized and unauthorized cedants. 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.

Effective January 4, 2000, the Company and its parent Company, Excess Reinsurance Company, participate in a pooling agreement under which the two companies participate based on the relative amounts of policyholders' surplus at the end of the previous year. The pooling percentages during the examination period were as follows:

	<u>Excess Reinsurance Company</u>	<u>Guilderland Reinsurance Company</u>
2002	67%	33%
2003	64%	36%
2004	72%	28%
2005	63%	37%
2006	57%	43%

All lines and types of business are subject to the pooling agreement. The pooling agreement applies to all business after all reinsurance ceded to unaffiliated reinsurers. All premiums and expenses during a year, other than loss expenses and federal income taxes, are pooled based on the current year's pool participations. Losses and loss expenses are pooled based on the pool

participation applying during the year in which the losses and loss expenses occurred. Federal income taxes are not pooled. The agreement was filed with this Department pursuant to Section 1505 of New York Insurance Law.

The Company had three broad categories of business that it wrote. These were the broker assumed, the direct assumed and the direct umbrella.

The broker assumed business consisted of reinsurance assumed from many insurance companies that was produced by the Company's employees prior to 2000 and Guy Carpenter employees since the latter part of 1999. The broker assumed business is 100% reinsured by National Grange Mutual Insurance Company ("NGM").

The direct assumed business was reinsured in different ways. Losses occurring on or before June 30, 1998 are ultimately reinsured by NGM. For losses occurring subsequent to June 30, 1998, the vast majority of this business was ceded to the Regional Accounts Program ("RAP"), which was managed by Guy Carpenter and under which Erie Insurance Company was the 100% reinsurer through the end of 2002. There were a very few contracts that were specifically reinsured outside of the RAP. A few of these contracts were reinsured with Excess Reinsurance Company.

The direct umbrella business consisted of umbrella liability policies issued to insureds of client companies who could not buy the coverage through the client company because of statutory limitations. The direct umbrella business was ceded in two parts. The first million dollars of limit was 95% reinsured on a quota share basis. Limits in excess of one million dollars were reinsured on an excess of loss basis for 100% of up to \$4,000,000 in excess of the \$1,000,000 underlying policy limit. The line of business is other liability - occurrence.

Most contracts issued by the Company were done so on a multiple line basis including property and casualty. Premiums and losses under these contracts are allocated to Annual Statement line of business in accordance with Department Regulations.

Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. The Company has never filed its intercompany quota share reinsurance agreement with Excess Reinsurance Company, with this Department prior to implementation. The filing of this agreement is required by the New York Insurance Law, Section 1505(d)(2), which provides as follows:

“(d) The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such period:

(2) reinsurance treaties or agreements ...”

It is recommended that the Company comply with Section 1505(d)(2) of the New York Insurance Law and immediately file its existing intercompany quota share reinsurance agreement for review. A similar recommendation was made on the prior report on examination.

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. No exceptions were noted.

A sample of 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.

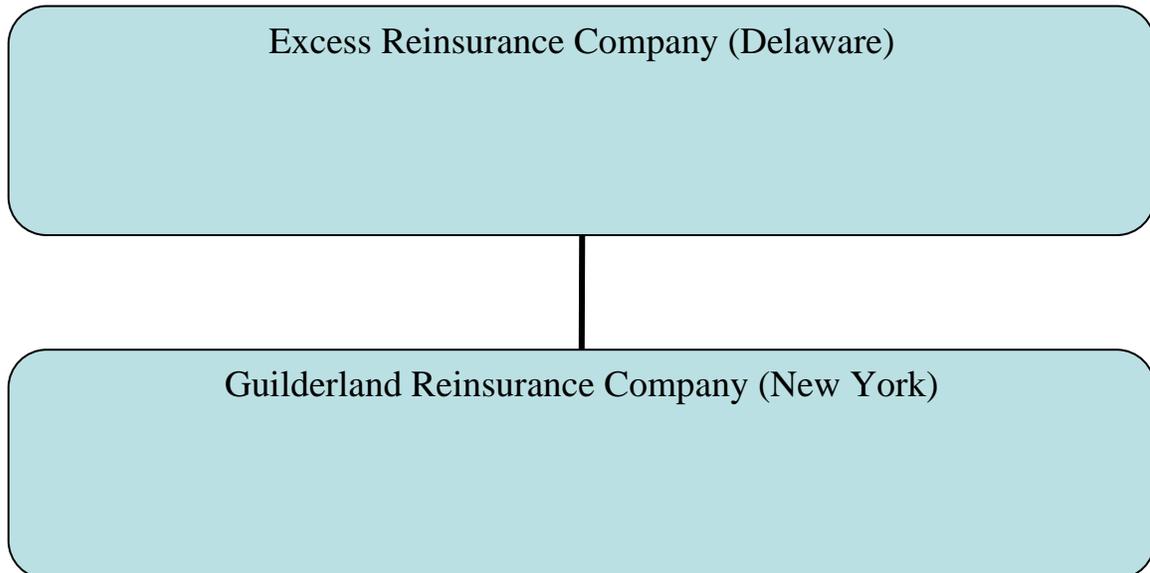
Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62. Representations were supported by an attestation from the Company's chief executive officer pursuant to Department Circular Letter No. 8 (2005). 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.

D. Holding Company System

The Company is a wholly-owned subsidiary of Excess Reinsurance Company, a Delaware corporation.

A review of the holding company registration statements filed with this Department indicated that such filings were complete but were not filed in a timely manner. Pursuant to Part 80-1.4 of Department Regulation 52, all controlled insurers are required to file an annual holding company registration statement (Form HC1) within 120 days following the end of its ultimate holding company's fiscal year. It is recommended that the Company file its annual holding company registration statements in a timely manner pursuant to the provisions of Part 80-1.4 of Department Regulation 52. It is noted that a similar recommendation was included in the previous report on examination.

The following is a chart of the holding company system at December 31, 2006:



At December 31, 2006, the Company was party to the following agreements with other members of its holding company system:

Inter-company Pooling Agreement

Effective January 4, 2000, the Company and its parent Company, Excess Reinsurance Company, participate in a pooling agreement under which the two companies participate based on the relative amounts of policyholders' surplus at the end of the previous year as more fully explained in item C of this report.

All lines and types of business are subject to the pooling agreement. The pooling agreement applies to all business after all reinsurance ceded to unaffiliated reinsurers. All premiums and expenses during a year, other than loss expenses and federal income taxes, are pooled based on the current year's pool participations. Losses and loss expenses are pooled based on the pool participation applying during the year in which the losses and loss expenses occurred. Federal income taxes are not pooled. The pooling agreement was filed with this Department pursuant to Section 1505 of New York Insurance Law.

Tax Allocation Agreement

At December 31, 2006, the Company was party to a tax allocation agreement with Excess Reinsurance Company. The agreement, which became effective January 1, 2000, provides for the calculation of Guilderland Reinsurance Company's tax liability on a separate company basis. In addition, the agreement provides that carryback net operating losses are to be handled on a separate company basis.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2006, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	0%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	12%
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.

The underwriting ratios presented below are on an earned/incurred basis and encompass the five-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$13,003,029	64%
Other underwriting expenses incurred	6,811,589	33
Net underwriting loss	<u>527,048</u>	<u>3</u>
 Premiums earned	 <u>\$20,341,666</u>	 <u>100%</u>

F. Accounts and Records

i. Custody Agreement

The Company maintains a custodial agreement with Bank of New York. A review of this agreement revealed that the agreement lacked all of the safeguards and controls required by this Department and the NAIC's Financial Condition Examiners Handbook. It recommended that the Company amend its custodian agreement to incorporate the appropriate covenants in accordance with Part 1 Section IV J of the NAIC Financial Condition Examiners Handbook. A similar recommendation was made on the prior report on examination.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2006 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Examination</u>		Net Admitted <u>Assets</u>
	<u>Assets</u>	Assets Not <u>Admitted</u>	
Bonds	\$10,031,008	\$0	\$10,031,008
Common stocks	1,652,584	0	1,652,584
Cash, cash equivalents and short-term investments	1,962,369	0	1,962,369
Investment income due and accrued	98,020	0	98,020
Uncollected premiums and agents' balances in the course of Collection	(45,189)	0	(45,189)
Amounts recoverable from reinsurers	962,345	0	962,345
Receivables from parent, subsidiaries and affiliates	<u>10,135</u>	<u>0</u>	<u>10,135</u>
Total assets	<u>\$14,671,272</u>	<u>\$0</u>	<u>\$14,671,272</u>
 <u>Liabilities, Surplus and Other Funds</u>			
<u>Liabilities</u>			
Losses and loss adjustment expenses			\$1,143,052
Reinsurance payable on paid losses and loss adjustment expenses			139,076
Other expenses (excluding taxes, licenses and fees)			28,382
Current federal and foreign income taxes			55,701
Net deferred tax liability			181,689
Unearned premiums			170
Funds held by company under reinsurance treaties			15,459
Amounts withheld or retained by company for account of others			30,844
Provision for reinsurance			<u>64,832</u>
Total liabilities			\$1,659,205
 <u>Surplus and Other Funds</u>			
Common capital stock		\$2,051,960	
Gross paid in and contributed surplus		9,260,267	
Unassigned funds (surplus)		<u>1,699,840</u>	
Surplus as regards policyholders			<u>13,012,067</u>
Total liabilities, surplus and other funds			<u>\$14,671,272</u>

NOTE: The Internal Revenue Service has not yet begun to audit the consolidated tax returns covering tax years 2002 through 2006. 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. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$2,324,053 during the five-year examination period January 1, 2002 through December 31, 2006, detailed as follows:

Underwriting Income

Premiums earned		\$20,341,666
Deductions:		
Losses incurred	\$12,428,004	
Loss adjustment expenses incurred	575,025	
Other underwriting expenses incurred	<u>6,811,589</u>	
Total underwriting deductions		<u>19,814,618</u>
Net underwriting gain or (loss)		\$527,048

Investment Income

Net investment income earned	\$ 2,334,710	
Net realized capital gain	<u>(410,057)</u>	
Net investment gain or (loss)		1,924,653

Other Income

Aggregate write-ins for miscellaneous income	\$ <u>186,940</u>	
Total other income		<u>186,940</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$2,638,641
Federal and foreign income taxes incurred		<u>1,016,691</u>
Net income		<u>\$1,621,950</u>

C. Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 2001			\$10,688,014
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$1,621,950		
Net unrealized capital gains or (losses)	834,153		
Change in net deferred income tax		\$67,219	
Change in provision for reinsurance	_____	<u>64,831</u>	
Total gains and losses	<u>\$2,456,103</u>	<u>\$132,050</u>	
Net increase (decrease) in surplus			<u>2,324,053</u>
Surplus as regards policyholders per report on examination as of December 31, 2006			<u>\$13,012,067</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$1,143,052 is the same as reported by the Company as of December 31, 2006. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Companies internal records and in its filed annual statements.

5. MARKET CONDUCT ACTIVITIES

The Company has been in run-off since 2003. A market conduct review was not performed during this examination.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Reinsurance</u>	
i. It is recommended that the Company comply with Section 1505(d)(2) of the New York Insurance Law and immediately file its existing intercompany pooling agreement and intercompany quota share reinsurance agreement for review.	12
The Company filed its intercompany pooling agreement with the Department but did not file its intercompany quota share reinsurance agreement for review. A similar comment is made in this report.	
ii. It is further recommended that the Company file all future intercompany reinsurance agreements as/when required by the New York Insurance Law.	12
The Company has complied with this recommendation.	
iii. It is recommended that the Company comply with the terms of its intercompany pooling agreement with Excess Reinsurance Company by settling its accounts on an annual basis no later than 30 days subsequent to the end of the calendar year.	13
The Company has complied with this recommendation.	
iv. It is recommended that the Company comply with the NAIC Annual Statement Instructions with regards to Schedule F- Parts 3 & 5.	13
The Company has complied with this recommendation.	
B. <u>Holding Company System</u>	
i. It is recommended that the Company comply with the Department Regulation 52, Subpart 80-1.2 and file Form HC-1 on an annual basis no later than 120 days subsequent to the Company's fiscal year-end.	14
The Company has not complied fully with this recommendation. A similar comment is made in this report.	

<u>ITEM</u>	<u>PAGE NO.</u>
ii. It is recommended that the Company comply with the NAIC Annual Statement Instructions and include all material intercompany transactions in Schedule Y- Part 2 on all future annual statements. The Company has complied with this recommendation.	14
iii. It is recommended that the Company file its existing intercompany tax allocation agreement with the Department for its review pursuant to the requirements of Department Circular Letter No. 33 (1979). The Company has complied with this recommendation.	15
iv. It is recommended that the Company immediately reduce to writing, the cost sharing arrangement that exists between itself and its parent company, Excess Reinsurance Company. The Company has complied with this recommendation.	15
C. <u>Accounts and Records</u>	
i. It is recommended that the Company obtain accounting software for the preparation and maintenance of the Company's financial statements. This recommendation is no longer applicable as the Company has been in run-off since 2003 and its sale is pending.	16
ii. It is recommended that the Company comply with the New York Insurance Law, Section 1409 by maintaining no securities in any one institution that exceed ten percent of the Company's admitted assets. As of December 31, 2002, the Company had divested itself of the excess investment. The Company has complied with this recommendation.	17
iii. It is recommended that the Company obtain, maintain and reconcile supporting documentation that substantiates all assets and liability items reported in its financial statements. The Company has complied with this recommendation.	17
iv. It is recommended that the custody agreement with Fleet Bank be amended to include the NAIC Indemnification Clause. The Company has not complied with this recommendation. A similar comment is made in this report.	18

<u>ITEM</u>		<u>PAGE NO.</u>
D.	<u>Abandoned Property Law</u>	
	It is recommended that the Company file its abandoned property reports on a timely basis pursuant to the provisions of Section 1316 of the New York State Abandoned Property Law.	19

The Company has complied with this recommendation.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Management</u>	
i.	It is recommended that the Company maintain signed conflict of interest statements at its home office for each year subject to examination.	4
B.	<u>Reinsurance</u>	
i.	It is recommended that the Company comply with Section 1505(d)(2) of the New York Insurance Law and immediately file its existing intercompany quota share reinsurance agreement for review. A similar recommendation was made on the prior report on examination.	8
C.	<u>Holding Company System</u>	
i.	It is recommended that the Company file its annual holding company registration statements in a timely manner pursuant to the provisions of Part 80-1.4 of Department Regulation 52. It is noted that a similar recommendation was included in the previous report on examination.	9
D.	<u>Custody Agreement</u>	
i.	It recommended that the Company amend its custodian agreement to incorporate the appropriate covenants in accordance with Part 1 Section IV J of the NAIC Financial Condition Examiners Handbook. A similar recommendation was made on the prior report on examination.	11

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, Eric R. Dinallo, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Sheik Mohamed

as proper person to examine into the affairs of the

GUILDERLAND REINSURANCE 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 11th day of October, 2007



A handwritten signature in cursive script, reading "Eric R. Dinallo", written over a horizontal line.

ERIC R. DINALLO
Superintendent of Insurance