

REPORT ON EXAMINATION

OF THE

MERRION INSURANCE COMPANY

AS OF

DECEMBER 31, 2001

DATE OF REPORT

JULY 8, 2002

EXAMINER

KEVIN MALONEY

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

July 8, 2002

Honorable Gregory V. Serio
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 21754 dated August 2, 2001 attached hereto, I have made an examination into the condition and affairs of Merrion Insurance Company as of December 31, 2001, and submit the following report thereon.

The examination was conducted at the Company's administrative offices located at 70 Pine Street, New York, NY 10270-0110.

Wherever the terms "the Company" or "Merrion" appear herein without qualification, they should be understood to indicate Merrion Insurance Company. Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

Based on the findings of this examination, the Company's required to be maintained surplus of \$2,200,000 is impaired in the amount of \$1,558,023. The impairment resulted from the disallowance as an admitted asset of securities held in a trust account established for the benefit of the Company by its

parent, Icarom p.l.c. Securities held in trust are not allowed as an admitted asset by the beneficiary.

Subsequent to the examination date, the Company transferred the securities to a custodial account in the name of Merrion Insurance Company, thereby eliminating the impairment.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1993. This examination covered the eight-year period from January 1, 1994 through December 31, 2001, and was limited in scope to those balance sheet items considered by this Department to require analysis, verification or description, including: invested assets and loss and loss adjustment expense reserves. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

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 Insurance Corporation of Ireland, Limited ("ICI") was established in 1935, under the laws of the Republic of Ireland. On March 17, 1976, the Insurance Corporation of Ireland, U.S. Branch ("U.S. Branch") was licensed under the laws of the State of New York. In September 1983, all of the outstanding stock of the ICI was acquired by Allied Irish Banks, Limited. In March 1985, ICI was taken over by the Irish government due to its insolvency. The U.S. Branch ceased writing business in 1985 and its last policy expired in 1986.

Merrion Insurance Company (“Merrion”) was established as the vehicle for the domestication of the U.S. Branch pursuant to a domestication agreement, which was approved by this Department effective March 31, 1989. Merrion was formed for the sole purpose of running off the insurance liabilities previously written by the U.S. Branch.

Section 1102(h) of the New York Insurance Law prohibits the issuance of a license to a foreign insurance company that is controlled, in whole or in part, by a foreign government. ICI was considered to be owned by the Irish Government by virtue of its parent company being taken over by the Irish government due to its insolvency. In order to effectuate the domestication of the Branch, a voting trust for the stock of Merrion was established between Merrion and ICI concurrent with the domestication. Pursuant to the voting trust agreement, certificates representing all of the outstanding stock of Merrion are held by five voting trustees in escrow on behalf of ICI. The voting trust agreement was renewed for a period of ten years commencing March 23, 1999. The voting trustees from the date of renewal are Robert M. Lowd, Harold E. Johnson, George G. D’Amato, Ronald Carroll and John P. Higgins.

Additionally, concurrent with the domestication, a reinsurance agreement was entered into between ICI and Merrion whereby ICI reinsured 100% of the liabilities on all of the insurance and reinsurance policies previously issued by the U.S. Branch. As consideration for the reinsurance, the U.S. Branch paid provisional premiums in an amount equal to its outstanding liabilities at the inception of the agreement. The agreement provided that the provisional premiums shall be adjusted upwards or downwards by the amount by which the ultimate liabilities differ from the initial amounts reported; however, additional premiums shall in no event exceed an amount which would result in impairment of the required minimum capital and surplus of the Company. The reinsurance recoverable balances were funded by a trust account established pursuant to Department Regulation 114.

It is noted that as of 1996, the Company's surplus as regards policyholders was reduced to the minimum required amount of \$2,200,000 as a result of additional premiums paid pursuant to this agreement.

Capital paid in is \$500,000 consisting of 5,000 shares of \$100 par value per share common stock. Gross paid in and contributed surplus was \$1,700,000.

A. Management

Effective March 31, 1989, the operations of the Company are managed by Focus Group, Inc. ("Focus"), an unaffiliated entity, pursuant to a management agreement ("Agreement"). The Agreement was submitted to and approved by this Department as part of the domestication of the U.S. Branch. The Company currently has no open claims and Focus' duties now consist mainly of annual and quarterly statement preparation. The fees charged by Focus for these services are minimal and are being paid by the Company's parent, Icarom, plc.

The Company's by-laws provide that the corporate powers of the Company are to be exercised by a board of directors consisting of not less than thirteen nor more than seventeen members. As of December 31, 2001, the board of directors consisted of the following twelve members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Mary Jo Barry New York, NY	Attorney, D'Amato & Lynch
Thomas Breen New York, NY	Attorney, D'Amato & Lynch
John J. Cullen Douglaston, NY	Attorney, D'Amato & Lynch

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Alfred D'Agostino New York, NY	Attorney, D'Amato & Lynch
George D'Amato Plandome, NY	Attorney, D'Amato & Lynch
John Higgins New York, NY	Attorney, D'Amato & Lynch
Harold Johnson New York, NY	Retired
William Larsen Jersey City, NJ	Attorney, D'Amato & Lynch
Robert M. Lowd Port St. Lucie, FL	Retired
Robert Makla Brooklyn, NY	Attorney, D'Amato & Lynch
Brendan Murphy Dublin, Ireland	Insurance Executive, Icarom, plc
Peter Thumser Malverne, NY	Attorney, D'Amato & Lynch

Since 2000, the Company has maintained only twelve directors. Pursuant to Section 1201(a)(5)(B)(v) of the New York Insurance Law and the Company's by-laws, the number of directors may not be less than thirteen. It is recommended that the Company maintain at least thirteen directors in compliance with Section 1201(a)(5)(B)(v) of the New York Insurance Law and its by-laws.

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended; however, two directors, Harold Johnson and Peter Thumser, each attended less than 50 percent of the meetings they were eligible to attend.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that appropriate policy decisions may be reached by the board. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria. Board members who are unable or unwilling to attend meetings consistently should resign or be replaced. It is noted that a similar recommendation was made regarding Peter Thumser in the prior report on examination.

Additionally, the Company's by-laws provide that the board of directors shall have an annual meeting and no less than three additional meetings during the year. A review of the minutes of the meetings held during the examination period indicated that the board met only twice in 1997, once each in 1998, 1999 and 2000, and none in 2001. It is recommended that the board of directors meet quarterly in compliance with its by-laws.

The following were the officers of the Company at December 31, 2001:

<u>Name</u>	<u>Title</u>
Robert M. Lowd	President, Treasurer
Mary Jo Barry	Secretary

B. Territory and Plan of Operation

As of December 31, 2001, the Company was licensed to transact business only in New York. Currently, the Company does not write any business and will not do so until approved by the Department. The current in-force business is in run-off status.

The Company is licensed to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
3	Accident and health
4	Fire
5	Miscellaneous property damage
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
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 may also write such workers' compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a), including insurances described in the Longshoremen's and Harbor Workers' Compensation Act.

The Company has not written any business during the examination period.

Based upon the lines of business for which the Company is licensed, 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 of \$2,200,000.

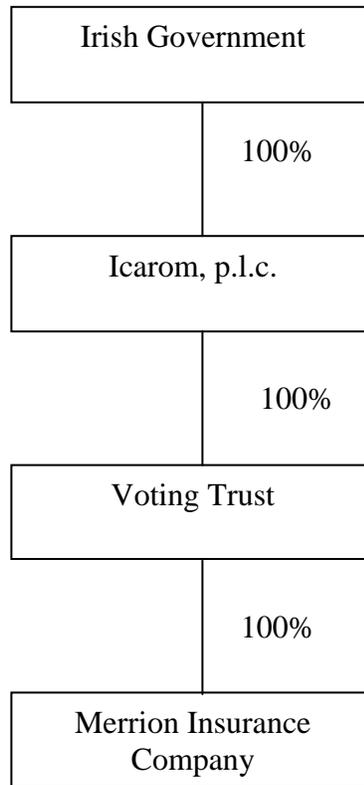
C. Reinsurance

The Company has not written any new or renewal business since 1985 and its last policy expired in 1986. As of the examination date, the Company indicated that it has no open claims but it maintains a nominal reserve of \$60,000 to cover any small claims, which may be presented from time to time. The Company indicated that no new claims have been reported for several years. The reserve is 100% reinsured, so no liability is reported on the Company's balance sheet for losses or loss adjustment expenses.

As of the examination date, the only reinsurance the Company had in effect was the 100% reinsurance agreement with Icarom, p.l.c. (formally known as Insurance Corporation of Ireland, Limited), which is more fully described in Item 2 of this report.

D. Holding Company System

The Merrion Insurance Company is a member of a holding company system in which the holder of record is the Voting Trust and the beneficial owner is Icarom, p.l.c. (formally known as Insurance Corporation of Ireland Limited). The following is a chart depicting the Company's holding company system as of December 31, 2001:



Since the Company ceased writing business in 1985, the Department has waived the Company's requirement to file annual holding company registration statements pursuant to requirements of Department Regulation 52 and Section 1503(a) of the New York Insurance Law.

E. Significant Operating Ratios

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

	<u>Amounts</u>	<u>Ratios</u>
Losses incurred	\$(180,000)	0%
Loss adjustment expenses incurred	340,510	0
Other underwriting expenses incurred	2,675,956	0
Underwriting (loss)	<u>(2,836,466)</u>	<u>0</u>
Premiums earned	<u>\$ 0</u>	<u>0%</u>

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, 2001 and as reported by the Company:

	<u>EXAMINATION</u>			<u>COMPANY</u>		
<u>Assets</u>	<u>Ledger Assets</u>	<u>Non-Ledger Assets</u>	<u>Not-Admitted Assets</u>	<u>Admitted Assets</u>	<u>Admitted Assets</u>	<u>Surplus Increase (Decrease)</u>
Cash and short-term investments	\$2,468,514	\$	\$1,836,791	\$631,723	\$2,468,514	\$(1,836,791)
Interest, dividends and real estate income due and accrued	10,254	10,254		10,254	10,254	
Due to/from Regulation 114 Trust	<u>(278,768)</u>	_____	<u>(278,768)</u>	_____	<u>(278,768)</u>	<u>278,768</u>
Total Assets	<u>\$2,200,000</u>	<u>\$10,254</u>	<u>\$1,558,023</u>	<u>\$641,977</u>	<u>\$2,200,000</u>	<u>\$(1,558,023)</u>

Liabilities, surplus and other funds

	<u>Examination</u>	<u>Company</u>	Surplus Increase (Decrease)
Losses and loss adjustment expenses	\$	\$	\$
Aggregate write-ins for liabilities	_____	_____	_____
Total Liabilities	\$_____	\$_____	\$_____
Capital stock	500,000	500,000	
Gross paid in and contributed surplus	1,700,000	1,700,000	
Unassigned funds	<u>(1,558,023)</u>	_____	<u>(1,558,023)</u>
Surplus as regards policyholders	<u>\$641,977</u>	<u>\$2,200,000</u>	<u>\$(1,558,023)</u>
Total liabilities, surplus and other funds	<u>\$641,977</u>	<u>\$2,200,000</u>	

NOTE: The Internal Revenue Service has not performed any audits of the Company's Federal income tax returns. 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.

NOTE: Based on the findings of this examination, the Company's required to be maintained surplus of \$2,200,000 is impaired in the amount of \$1,558,023. The impairment resulted from the disallowance as an admitted asset of securities held in a trust account established for the benefit of the Company by its parent, Icarom p.l.c. Securities held in trust are not allowed as an admitted asset by the beneficiary. Subsequent to the examination date, the Company transferred the securities to a custodial account in the name of Merrion Insurance Company, thereby eliminating the impairment.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders decreased \$1,560,414 during the eight-year examination period January 1, 1994 through December 31, 2001, detailed as follows:

<u>Statement of Income</u>	
<u>Underwriting Income</u>	
Premiums earned	\$ 0
Deductions:	
Losses and loss expenses incurred	\$160,510
Other underwriting expenses incurred	2,658,791
Aggregate write-ins for underwriting deductions	<u>17,165</u>
Total underwriting deductions	<u>2,836,466</u>
Net underwriting gain or (loss)	\$(2,836,466)
<u>Investment Income</u>	
Net investment income earned	\$716,466
Net realized capital gains or (losses)	<u>(34,865)</u>
Net investment gain	681,601
<u>Other Income</u>	
Net gain or (loss) from agents' or premium balances charged off	
Finance and service charges	
Aggregate write-ins for miscellaneous	<u>34,865</u>
Total other income	<u>\$34,865</u>
Net income before dividends to policyholders and Federal and foreign income taxes	\$(2,120,000)
Dividends to policyholders	<u>0</u>
Net income before federal income taxes	\$(2,120,000)
Federal income taxes	<u>0</u>
Net income (loss)	<u><u>\$(2,120,000)</u></u>

C. Capital and Surplus Account

Surplus as regards policyholders, per report on examination as of December 31, 1993			\$2,202,391
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income (loss)	\$	\$2,120,000	
Change in not admitted assets	<u>559,586</u>	<u> </u>	
Total gains and losses	<u>\$559,586</u>	<u>2,120,000</u>	
Net decrease in surplus as regards policyholders			<u>(1,560,414)</u>
Surplus as regards policyholders, per report on examination as of December 31, 2001			<u>\$641,977</u>

4. CASH AND SHORT-TERM INVESTMENTS

The examination admitted asset of \$631,723 is \$1,836,791 less than the \$2,468,514 reported by the Company in its December 31, 2001 filed annual statement. The examination change represents securities held in a trust account established by the Company's parent, Icarom, to fund reinsurance balances due the Company pursuant to the 100% quota share agreement. Securities held in trust are not considered admitted assets of the beneficiary and may only be used as an offset to the liability for reinsurance balances due from an unauthorized reinsurer. Thus, the asset has been disallowed in this report. This item is further discussed in Section 8 herein, "Subsequent Events".

5. LOSSES & LOSS ADJUSTMENT EXPENSES

The Company reported no liability for the captioned items. The Company has no open claims and has not had a reported claim in several years. It carries a nominal reserve of \$60,000, which is fully reinsured pursuant to the 100% reinsurance agreement with its parent, Icarom, plc.

6. DUE TO/FROM REGULATION 114 TRUST

The Company reported a contra-asset in the amount of \$(278,768) in its December 31, 2001 filed annual statement. As a result of this examination, this item is eliminated. This item represents the amount due to Icarom, plc for the balance of the Company's admitted assets in excess of its minimum capital and surplus requirement of \$2,200,000. Due to the disallowance of the securities held in trust, as described in Item 4 of this report, the Company does not have admitted assets in excess of its minimum capital and surplus requirements.

7. MARKET CONDUCT ACTIVITIES

Merrion Insurance Company was formed for the sole purpose of running off the claims liabilities remaining from the business previously written by the Insurance Corporation of Ireland, US Branch; therefore, the Company is not involved in any sales, advertising or underwriting practices. Additionally, the Company currently has no open claims and has not had any reported in several years.

8. SUBSEQUENT EVENTS

Based on the findings of this examination, the Company's required to be maintained surplus of \$2,200,000 is impaired in the amount of \$1,558,023. The impairment resulted from the disallowance as an admitted asset of securities held in a trust account established for the benefit of the Company by its parent, Icarom p.l.c. Securities held in trust are not allowed as an admitted asset by the beneficiary. Subsequent to the examination date, the Company transferred the securities to a custodial account in the name of Merrion Insurance Company, thereby eliminating the impairment.

9. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. It was recommended that the Company renew the management agreement with Focus.	3
<p>The Company no longer has any open claim files and Focus' duties consist only of annual and quarterly statement preparation. Any management fees associated with these services are now paid by the Company's parent, Icarom plc; therefore, this recommendation is no longer applicable.</p>	

<u>ITEM</u>		<u>PAGE NO.</u>
B.	It was recommended that members of the board who are unable or unwilling to attend meetings consistently should resign or be replaced. The Company has not complied with this recommendation. A similar recommendation is contained in this report.	5
C.	It was recommended that the Company maintain its corporate records at its principal office located at 150 Broadway, New York, NY in compliance with Section 325 of the New York Insurance Law. The Company's office at 150 Broadway has been closed and the Company was permitted to maintain its records at the office of D'Amato and Lynch, located at 70 Pine Street, New York, NY.	5
D.	It was recommended that the Company complete Schedule F – Part 8, Restatement of Balance Sheet to Identify Net Credit for Reinsurance, in its filed annual statement. The Company has no open claim files or reinsurance recoverable. Therefore, there would be no restatement adjustments. This recommendation is no longer applicable.	7
E.	It was recommended that the Company file an annual holding company registration statement pursuant to the requirements of New York Regulation 52 and Section 1503(a) of the New York Insurance Law. The Company has not complied with this recommendation. A similar recommendation is contained herein.	9

10. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A.	Based on the findings of this examination, the Company's required to be maintained surplus of \$2,200,000 is impaired in the amount of \$1,558,023. The impairment resulted from the disallowance as an admitted asset of securities held in a trust account established for the benefit of the Company by its parent, Icarom p.l.c. Securities held in trust are not allowed as an admitted asset by the beneficiary. Subsequent to the examination date, the Company transferred the securities to a custodial account in the name of Merrion Insurance Company, thereby eliminating the impairment.	

ITEMPAGE NO.B. Management

- | | | |
|------|--|---|
| i. | It is recommended that the Company maintain at least thirteen directors in compliance with Section 1201(a)(5)(B)(v) of the New York Insurance Law and its by-laws. | 5 |
| ii. | Board members who are unable or unwilling to attend meetings consistently should resign or be replaced. | 6 |
| iii. | It is recommended that the board of directors meet quarterly in compliance with its by-laws. | 6 |

Appointment No. 21754

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:

Kevin Maloney

as proper person to examine into the affairs of the

MERRION INSURANCE COMPANY

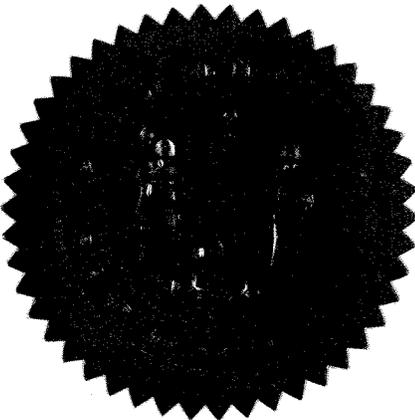
and to make a report to me in writing of the condition of the said

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 2nd day of August, 2001





GREGORY V. SERIO
Superintendent of Insurance