REPORT ON EXAMINATION

OF THE

TOWER INSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 2009

DATE OF REPORT	MAY 11, 2011
EXAMINER	GLENDA GALLARDO

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

May 11, 2011

Honorable James J. Wrynn
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 30442 dated December 8, 2009, attached hereto, I have made an examination into the condition and affairs of Tower Insurance Company of New York as of December 31, 2009, and submit the following report thereon.

Wherever the designations “the Company” or “TICNY” appear herein without qualifications, they should be understood to indicate Tower Insurance Company of New York.

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 120 Broadway, New York, NY.

1. SCOPE OF EXAMINATION

The Department has performed a multi-state examination of Tower Insurance Company of New York. The previous examination of the Company was conducted as of December 31, 2004. This examination covered the five year period from January 1, 2005 through December 31, 2009. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

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 and an evaluation based upon the Company's Sarbanes Oxley documentation and testing. The examiners also relied upon audit work performed by the Company's independent public accountants when appropriate.

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

Significant subsequent events
Company history
Corporate records
Management and control
Fidelity bonds and other insurance
Territory and plan of operation
Growth of Company
Loss experience
Reinsurance
Accounts and records

Statutory deposits
Financial statements
Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

Tower Insurance Company was incorporated under the laws of New York on June 20, 1989. The Company became licensed and began writing property and casualty business in December 1990. On April 18, 1994, the Department approved the name change to Tower Insurance Company of New York. In 1996, the Company was reorganized under a new parent, Tower Group, Inc. (“TGI”). Under this structure, TGI, an insurance services holding company owns 100% of the Company and 100% of a managing general agency affiliate, Tower Risk Management Corp. (“TRM”).

TGI, the parent company has been expanding and growing its business operations regionally across the United States by acquiring several insurance companies. With all the acquisitions now under its umbrella, TGI has become a conglomerate of property and casualty insurers and insurance services agencies that offers a broad range of specialized insurance products and services to small and mid-sized business and to individuals primarily in the Northeast, Florida, Texas and California.

The Company, as one of TGI’s insurer subsidiaries, provides commercial and personal lines insurance policies to businesses and individuals. The Company’s commercial lines products include commercial multiple-peril (provides both property and liability insurance), mono-line general liability (insures bodily injury or property damage liability), commercial umbrella, mono-line property (insures buildings, contents or business income), workers’ compensation and commercial automobile policies. Its personal lines products consist of homeowners, dwelling and other liability policies.

In 2008, the Company expanded its business writing outside of New York. Effective January 1, 2008, the Company entered into an inter-company pooling agreement, serving as the pool manager, with several of its United States (“U.S.”) insurance company affiliates. This agreement was revised in 2009 to include four insurers that had been acquired by TGI; see Section C for a detailed description of the pooling agreement.

As of December 31, 2009, capital paid in was $3,705,214 consisting of 1,482 shares of common stock at $2,500.14 par value per share. Gross paid in and contributed surplus was $179,781,554. Gross paid in and contributed surplus increased by $58,455,616 during the examination period, as follows:

Year	Description		Amount
2004	Beginning gross paid in and contributed surplus		$121,325,938
2005	Surplus paid adjustment	$ 177,796	
2006	Surplus paid adjustment	49,583501	
2007	Surplus paid adjustment	3,174,123	
2008	Surplus paid adjustment	264,013	
2009	Surplus paid adjustment	5,256,182	
	Total Surplus Contributions		58,455,616
2009	Ending gross paid in and contributed surplus		$179,781,554

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 meets four times during each calendar year. At December 31, 2009, the board of directors was comprised of the following thirteen members:

Name and Residence	Principal Business Affiliation
Michael H. Lee New York, NY	President & Chief Executive Officer, Tower Insurance Company of New York
Elliot S. Orol New York, NY	Senior Vice President, General Counsel, Tower Insurance Company of New York
Francis M. Colalucci New York, NY	Senior Vice President and Director, Tower Insurance Company of New York
Christian K. Pechmann Mendham, NJ	Senior Vice President, Tower Insurance Company of New York
Laurie A. Ranegar New Hope, PA	Senior Vice President, Operations, Tower Insurance Company of New York

Name and Residence	Principal Business Affiliation
Catherine M. Wragg Jersey City, NJ	Managing Vice President, Human Resources and Administration, Tower Insurance Company of New York
Salvatore V. Abano Milltown, NJ	Senior Vice President, Certified Information Officer, Tower Insurance Company of New York
Joel S. Weiner New Hope, PA	Senior Vice President, Strategic Planning and Actuarial Tower Insurance Company of New York
Bruce W. Sanderson North Caldwell, NJ	Managing Vice President , Field Management, Tower Insurance Company of New York
Brian W. Finkelstein Rye Brook, NY	Managing Vice President , Controller, Tower Insurance Company of New York
Thomas H. Song South Orange, NJ	Managing Vice President, Director, Tower Insurance Company of New York
Gary S. Maier Tenafly, New Jersey	Senior Vice President, Chief Underwriting Officer, Tower Insurance Company of New York
Scott T. Melnik Kings Park, NY	Managing Vice President, Director, Tower Insurance Company of New York

When reviewing the minutes, the examiner noted that the Company did not hold regular board meetings during the period covered by this examination. In lieu of formal board meetings, the Company's business was conducted through "Action by Unanimous Consent of Directors without a Meeting".

It is the Department's position that there should be at least one annual meeting of the Company's Board of Directors and any "Action by Unanimous Consent of Directors without a Meeting" should be limited to emergency situations only. 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 have regular meetings in which they set forth their views on relevant matters so that they may reach appropriate decisions. It is recommended that the Company convene regularly scheduled quarterly meetings of its board of directors as stated in its by-laws and maintain complete minutes of such proceedings.

As of December 31, 2009, the principal officers of the Company were as follows:

Name	Title
Michael H. Lee	President and Chief Executive Officer
Francis M. Colalucci*	Treasurer and Chief Financial Officer
Joel S. Weiner	Senior Vice President, Chief Actuary and Chief Risk Officer
Elliot S. Orol	Senior Vice President, General Counsel and Secretary
Gary S. Maier	Chief Underwriting Officer

*Mr. Colalucci resigned in early 2010 and was replaced by William Hitselberger.

B. Territory and Plan of Operation

As of December 31, 2009, the Company was licensed to write business in forty-seven 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:

Paragraph	Line of Business
3	Accident and 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
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
22	Residual value

The Company is licensed to write special risks pursuant to Article 63 of the New York Insurance Law and is also licensed to transact such workers’ compensation insurance as may be incident to coverages contemplated under paragraph 20 of Section 1113(a) of the New York Insurance Law, including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law 803, 69th Congress as amended).

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13, 41, and 63 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $6,000,000.

The parent company, TGI, currently operates three business segments: brokerage insurance, specialty business and insurance services. The first two business segments relate to the business generated by its subsidiaries, the Company being one of them.

Through the brokerage insurance segment, the Company offers a broad and diversified range of property and casualty insurance products and services to small to mid-sized businesses, and to individuals throughout the United States. In addition, the Company provides commercial lines products comprised of commercial package, general liability, workers' compensation, commercial auto and commercial umbrella policies to businesses in different industries. Generally, the Company focuses on specific classes of business in the real estate, retail, wholesale and service industries such as retail and wholesale stores, residential and commercial buildings, restaurants and artisan contractors. It also offers personal lines products that provide coverage for modestly valued homes and dwellings as well as personal automobiles for individuals located predominately in the Northeast.

These products are underwritten and serviced through its eighteen offices and distributed through approximately 1,173 retail agents and 196 wholesale agents. Approximately 71% of the direct premiums written by the brokerage insurance segment in 2009 were from the Northeast.

The specialty business segment consists of insurance covering narrowly-defined, homogeneous classes of business including: long-term healthcare workers, specialty transportation, professional employers' organizations, temporary staffing firms, public entities, commercial construction and auto dealerships.

This business is produced through a select number of program underwriting agents, who have specialized underwriting expertise in the classes they underwrite and who have established books of business with proven track records. The Company relies on its program underwriting agents for industry insight, regional underwriting knowledge and understanding of the specific risks in the niche markets it serves.

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

Calendar Year	New York State	Total Premiums	Premiums Written in New York State as a Percentage of Total Premium
2005	$298,594,800	$298,594,800	100.00%
2006	$385,611,110	$387,542,602	99.50%
2007	$374,151,657	$405,916,555	92.17%
2008	$292,948,206	$469,578,109	62.39%
2009	$278,695,292	$502,693,776	55.44%

C. Reinsurance

Assumed reinsurance accounted for 2% of the Company's gross premiums written at December 31, 2009, excluding business assumed via the inter-company pooling agreement. During the period covered by this examination, the Company's assumed reinsurance business has remained stable since the last examination. The Company's assumed business relates in part to the participation in a mandated pool and the assumption of certain specialty programs. The Company utilizes reinsurance accounting as defined in NAIC Accounting Practices and Procedures Manual Statements of Statutory Accounting Principles ("SSAP") No. 62 for all of its assumed reinsurance business.

The Company also assumes reinsurance directly from the insurance companies for which its affiliate, Tower Risk Management ("TRM") produces insurance premiums; they are referred to as TRM's "issuing companies."

Inter-Company Pooling Agreement

Effective January 1, 2008, the Company, functioning as the pool manager, entered into an inter-company pooling agreement with several of its insurance affiliates, Tower National Insurance Company ("TNIC"), Preserver Insurance Company ("PIC"), North East Insurance Company ("NEIC"), and Mountain Valley Insurance Company ("MVIC"), collectively the "participating companies." On February 5, 2009, the pooling agreement was amended to include CastlePoint Insurance Company ("CPIC"), as a result of the acquisition of CPIC by Tower Group, Inc. ("TGI"), the Company's ultimate parent. On April 1, 2009, the pooling agreement was again amended to include Hermitage Insurance Company ("HIC"), as a result of the acquisition of HIC by TGI. On December 31, 2009, the pooling agreement was amendment to include CastlePoint National Insurance Company (formerly known as SUA Insurance Company) ("CPNIC"), as a result of the acquisition of CPNIC by TGI.

According to the terms of the agreement, the participating companies will cede 100% of all their direct and assumed business written to TICNY, which in turn will accept as assumed reinsurance 100% of the net liabilities with respect to policies issued by the participants. At the same time, TICNY will retrocede to the participating companies a percentage of the pooled business (net of internal and external reinsurance) as set forth in the pooling agreement.

The Company will negotiate, obtain and maintain reinsurance on behalf of itself and the pool members with respect to the insurance liability under all policies written by the pool members and by the Company. All ceded balances related to internal and external reinsurance contracts are recorded in the statutory financial statements of TICNY and all reinsurers which are parties to the contracts are included in TICNY's Schedule F. It is noted that the Company is the only pool participant that establishes a provision for reinsurance.

The agreement and all its amendments were reviewed and approved by the Department pursuant to Section 1505 of the New York Insurance Law.

The participating percentages of each pool member as of December 31, 2009 were as follows:

Company	State of Domicile	Abbreviation	NAIC#	Pooling Percentage
Tower Insurance Company of New York	NY	TICNY	44300	37%
CastlePoint National Insurance Company	IL	CNIC	40134	18%
CastlePoint Insurance Company	NY	CPIC	17205	16%
Hermitage Insurance Company	NY	HIC	18376	13%
Preserver Insurance Company	NJ	PIC	15586	7%
North East Insurance Company	ME	NEIC	24007	4%
Mountain Valley Indemnity Company	NH	MVIC	10205	3%
Tower National Insurance Company	MA	TNIC	43702	2%
				100%

It is noted that the Company was not fully in compliance with the provisions of Article IX Section B of its pooling agreement, which requires that account statements be prepared within 30 days of the end of each quarter and that balances should be settled within 15 days after preparation and receipt of the account statements. The account statements and settlement were not timely prepared and made. It is recommended that the Company comply with Article IX , Section B of its pooling agreement as filed in accordance with Section 1505(d)(2) of the New York Insurance Law.

The company has structured its ceded reinsurance program to limit its maximum exposure on any one risk as follows:

Net Quota Share Reinsurance Agreement with CPRE

Effective July 1, 2009, TICNY and its pool members entered into a 50% quota share reinsurance agreement with an affiliated unauthorized reinsurer, CastlePoint Reinsurance Company LTD. ("CPRe"). A provision of the contract indicates that the parties may agree in writing to adjust the quota share number to any percentage between 25% and 50%. Business covered under this agreement relates to all new and renewed policies written during the term the contract. Cessions under this agreement should be made only after the application of all inuring reinsurance the Company may have in place. Prior to December 31, 2009, TICNY and its pool members were also reinsured by CPRe. The business covered was as follows:

- April 1 to June 30, 2006 — In-force, new and renewal premium (30%)
- July 1, 2006 to December 31, 2006 — New and renewal (40%)
- January 1, 2007 to March 31, 2007 — New and renewal (49%)
- April 1, 2007 to June 30, 2007 — New and renewal (40%)
- July 1, 2007 to December 31, 2008 — In-force, new and renewal (25%)

Tower and its pool members did not reinsure any new and renewal premium in the first six months of 2009.

In addition to the quota share agreement with CPRe, the Company maintains the following reinsurance program both on a proportional and non-proportional basis:

Type of treaty	Cession
Proportional	
95% Umbrella Quota Share 100% Authorized	Covers commercial and personal umbrella 95% any one risk, any one occurrence up to maximum of $5 million.
80% Umbrella Quota Share (Agency Reinsurance) 100% Authorized	Covers umbrella liability and excess liability produced and underwritten by W. H. Greene and Associates.

Type of treaty	Cession
	80% quota share subject to a maximum of $5 million; losses from sexual assault subject to an aggregate of 80% of $5 million. Also covers extra contractual obligations not to exceed $5 million.
Excess Agreement (Agency Reinsurance) 100% Authorized	Covers umbrella liability and excess liability produced and underwritten by W. H. Greene and Associates. $5 million excess of $5 million; losses from sexual assault subject to an aggregate of 80% of $5 million. Also covers extra contractual obligations not to exceed $5 million.
50% Liability Quota Share Reinsurance 75% Authorized	50% quota share of brokerage business classified by the Company as commercial multiple peril liability and other liability to a maximum of $1 million.
Equipment Breakdown Reinsurance 100% Authorized	100% quota share for equipment breakdown insurance.
Non-Proportional Excess of Loss	
Multi-Line Excess of Loss 100% Authorized	$1 million per risk/$3 million each occurrence excess of $1 million. (50% participation).
Casualty Clash Excess of Loss (2 Layers) 1st Layer 100% Authorized 2nd Layer 85% Authorized	$8 million excess of $2 million. (100% participation).
Property Excess of Loss (3 Layers)	
Covers all policies assumed from State National Insurance that is underwritten by Tower Risk Management 1st Layer 95% Authorized 2nd Layer 91.28% Authorized 3rd Layer 81.5% Authorized	$28 million each risk/$31 million aggregate, $31 million for terrorism, $6 million for e-commerce/cyber risk, excess of $2 million.
Workers' Compensation Excess of Loss	
(4 layers) 1st Layer 80% Authorized 2nd layer 85% Authorized 3rd Layer 90% Authorized 4th Layer 90% Authorized	$38 million excess of $2 million each occurrence. Reinsurers are liable for the limit of liability plus their proportional share of loss expenses subject to a maximum contribution to the loss of $10 million any one employee, any one occurrence. The

Type of treaty	Cession
	Reinsurer's limit of liability for terrorism losses would not exceed $30 million.
Three Layer Workers' Compensation Excess of Loss (Agency Reinsurance) 1st and 2nd Layers 100% Authorized 3rd Layer 90% Authorized	Covers business underwritten on behalf of the Company by Midwest General Agency $13 million in excess of $1 million any one loss occurrence. 1st layer was 50% placed.
Specialty Workers' Compensation Excess of Loss (4 layers) 1st Layer 60% Authorized 2nd Layer 75% Authorized 1st Cat Layer 55% Authorized 2nd Cat layer 72.5% Authorized	Covers business classified by the Company as Specialty Workers' Compensation. $24 million in excess of $1 million any one loss occurrence. All layers 100% placed in 2009.
Inland Marine Excess of Loss (100% Authorized)	Covers business written in conjunction with NBIS Construction and Transportation Underwriters, Inc $9.5 million each loss occurrence excess of $500 thousand, not to exceed $19 million any one occurrence.
Catastrophe Excess of Loss	
Property Catastrophic Excess of Loss* (4 Layers) 1st Layer 20.1% Authorized 2nd Layer 20.8% Authorized 3rd layer 17.79% Authorized 4th Layer 22.13% Authorized	$575 million in excess of $75 million. All layers are 100% placed in 2009.
Florida Property Catastrophic Excess of Loss 3 Layers 1st Layer 75% Authorized 2nd layer 75.83% Authorized 3rd layer 70.87% Authorized	Covers business written through Tower Risk Management. $30 million excess of $5 million each and every loss occurrence.

* Includes a 40% participation in layer 1 and 5% in layer 4 by CastlePoint Reinsurance Company Ltd.

Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It was 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. No exceptions were noted.

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

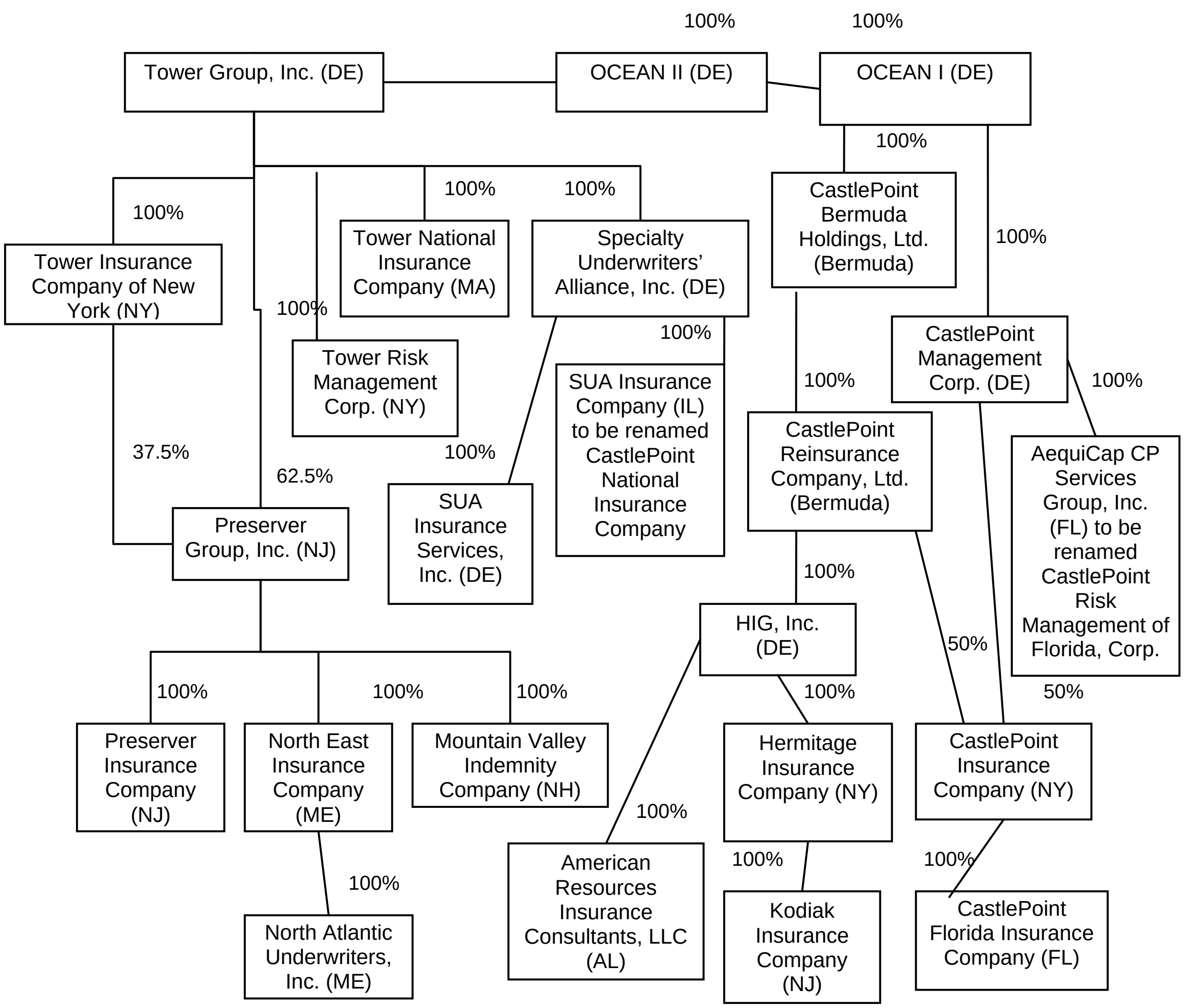
Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth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

D. Holding Company System

The Company is a member of the Tower Group Inc. The Company is 100% owned by Tower Group Inc. a holding company domiciled in the State of Delaware.

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, 2009:



At December 31, 2009, the Company was party to the following agreements with members of its holding company system:

Service and Expense Sharing Agreements

A) Tower Insurance Company of New York and Tower Risk Management Corp ("TRM")

Effective January 1, 2002, the Company entered into a service and expense agreement with Tower Risk Management Corp to jointly share in the underwriting and claims expenses, whereby, the Company will provide TRM with the following services: underwriting and marketing; policy issuance, billing, and collection; state filing; loss prevention; premium audit; claims; legal defense; and corporate services, accounting, human resources, and management information system. TRM will provide the following services to the Company: negotiate, secure and maintain agreements with clients; and reinsurance placement. The agreement indicates that joint expenses between the Company and TRM will be allocated in accordance with Department Regulation 30. In addition, TRM is required to pay 5% of TRM's gross premium written if the joint expenses allocated to TRM are less than 5% of TRM gross written premium.

On June 22, 2004, the Department approved the service and expense agreement between the Company and TRM in accordance with Section 1505(d)(3) of the New York Insurance Law.

B) Tower Insurance Company of NY, CastlePoint Management Corp. ("CPM"), and CastlePoint Insurance Company ("CPIC")

Effective January 1, 2007, the Company entered into a service and expense agreement with CastlePoint Management Corp. ("CPM') and CastlePoint Insurance Company ("CPIC") to jointly share in the underwriting and claims expenses as well as sharing any profits and losses from rendering services to third parties. According to the terms of the agreement, the following services would be provided or received by either the Company, CMP or CPIC: underwriting and marketing; policy issuance, billing, and collection; state filing and regulatory compliance; loss prevention; premium audit; claims services; administrative services such as human resources, and Information Technology ("IT") and facilities.

The agreement was amended to add that all underwriting and claims services provided to CPIC are to be based upon the written criteria, standards and guidelines of CPIC. The agreement and the subsequent amendment were approved on May 2, 2007 and October 2, 2009.

It is noted that the Company was not in compliance with Article 2, Section 2.03(a) of this agreement. This section calls for monthly submissions by the Company of detailed written estimates of the amounts owed for services and that payments based on those estimates should be made within 15 days following receipt of such estimates. It is recommended that the Company follow the provisions of its service agreement filed in accordance with Section 1505(d)(3) of the New York Insurance Law.

C) Service and Expense Sharing Agreements with Affiliated Insurance Companies

The Company and several of its affiliated insurance companies entered into service and expense sharing agreements as follows:

Effective Date	Affiliate
July 5, 2005	Tower National Insurance Company ("TNIC")
May 1, 2009	Preserver Insurance Company ("PIC"), North East Insurance Company ("NEIC"), and Mountain Valley Indemnity Company ("MVIC")
October 1, 2009	Hermitage Insurance Company ("HIC")
November 13, 2009	SUA Insurance Company

Under the terms of these agreements, the Company will perform all functions related to the conduct of property and casualty business including: underwriting and marketing; policy issuance, billing and collection; state filing, loss prevention/premium audit; claims; legal; and corporate services including accounting, human resources and management information systems. Each of the above agreements was non-disapproved by the Department pursuant to Section 1505(d)(3) of the New York Insurance Law.

Program Management Agreement

Effective April 4, 2006, the Company entered into a program management agreement with CPM, which was restated on January 1, 2007, whereby, the Company appoints CPM as its manager for the soliciting, underwriting, quoting, binding, issuing, and servicing policies classified as traditional program business and specialty program business and insurance risk sharing business. According to the agreement, all expenses shall be apportioned or paid at actual cost.

The restated agreement was approved on January 31, 2007, in accordance with Section 1505 of the New York Insurance Law.

Tax Allocation Agreement

Effective September 12, 2008, the Company entered into a tax allocation agreement with Tower Group, Inc. and several of its subsidiaries to jointly file consolidated federal income tax returns in accordance with the relevant Internal Revenue Service regulations. This agreement was not timely submitted as required by Section 1505(d)(3) of the New York Insurance Law. It is recommended that the Company comply with the filing requirements of Section 1505(d)(3) of the New York Insurance Law as well as the provisions of Department Circular Letter No. 33 (1979).

The agreement was amended on November 13, 2009, to include Specialty Underwriters' Alliance, Inc. ("SUA"). The agreement and amendment were approved by the Department on May 26, 2009 and October 28, 2009, respectively.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2009, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	115%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	163%*
Premiums in course of collection to surplus as regards policyholders	24%

Except for the Liabilities to liquid assets ratio the other two ratios fell within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

*The exceptional value for this ratio was caused by an increase in inter-company pooling liabilities between Tower's insurance company pool members. As of December 31, 2009, the pool members increased from 5 to 8 members due to acquisitions made by the Company's parent and other affiliates, which resulted in much higher adjusted liabilities. The ratio would have been within the usual balance if we excluded these inter-company payables from the calculation.

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

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$ 667,633,261	57.79%
Other underwriting expenses incurred	387,698,295	33.56
Net underwriting gain	99,973,021	8.65
Premiums earned	$1,155,304,577	100.00%

F. Accounts and Records

During the review of the Company's premiums billing and collection business function, it was noted that the Company had identified certain un-reconciled differences in the premiums receivable account. The Company has taken steps to resolve this deficiency but it has not yet been able to fully resolve it. It is recommended that the Company continue its remediation efforts in reconciling its premiums receivable.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2009 as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$ 516,686,907	$ 0	$ 516,686,907
Preferred stocks	23,863,902	0	23,863,902
Common stocks	31,184,167	0	31,184,167
Cash, cash equivalents and short-term investments	50,827,421	0	50,827,421
Contract loans	0	0	0
Other invested assets	274,981	0	274,981
Receivable for securities	364,950	0	364,950
Investment income due and accrued	6,413,950	0	6,413,950
Uncollected premiums and agents' balances in the course of collection	57,306,621	3,073,978	54,232,643
Deferred premiums, agents' balances and installments booked but deferred and not yet due	49,392,410	0	49,392,410
Accrued retrospective premiums	1,153,879	0	1,153,879
Amounts recoverable from reinsurers	161,117,200	0	161,117,200
Other amounts receivable under reinsurance contracts	175,746,524	0	175,746,524
Current federal and foreign income tax recoverable and interest thereon	687,379	0	687,379
Net deferred tax asset	47,574,993	23,058,171	24,516,822
Electronic data processing equipment and software	37,947,089	34,276,284	3,670,805
Furniture and equipment, including health care delivery assets	1,297,840	1,297,840	0
Receivables from parent, subsidiaries and affiliates	155,298,295	0	155,298,295
Advances to TPA's	1,736,639	0	1,736,639
Deposits from residual market pools	1,234,405	7,172	1,227,233
State surcharge overpayment	374,059	0	374,059
Miscellaneous receivable	659,447	546,716	112,731
Retroactive reinsurance losses recoverable	11,679	0	11,679
Prepaid expense	1,087,887	1,087,887	0
Leasehold improvement	538,793	538,793	0
Total assets	$1,322,781,417	$63,886,841	$1,258,894,576

Liabilities, Surplus and Other Funds

Liabilities		
Losses		$ 208,074,626
Reinsurance payable on paid losses and loss adjustment expenses		156,548,785
Loss adjustment expenses		48,455,574
Commissions payable, contingent commissions and other similar charges		2,663,635
Other expenses (excluding taxes, licenses and fees)		6,030,273
Taxes, licenses and fees (excluding federal and foreign income taxes)		529,840
Unearned premiums		125,238,376
Advance premium		3,138,170
Ceded reinsurance premiums payable (net of ceding commissions)		412,923,329
Funds held by company under reinsurance treaties		5,082,745
Amounts withheld or retained by company for account of others		10,844,876
Provision for reinsurance		1,681,713
Payable for securities		33,543,050
Premium collateral and loss fund deposit		4,873,312
Workers' compensation assessment payable		4,669,650
State income tax payable		1,101,126
Other liabilities		350,319
Total liabilities		$1,025,749,399
Surplus and Other Funds		
Retroactive reinsurance	$319,450	
Effect of adoption of SSAP No.10 R	8,039,239	
Common capital stock	3,705,214	
Gross paid in and contributed surplus	179,781,554	
Unassigned funds (surplus)	41,299,721	
Surplus as regards policyholders		233,145,178
Total liabilities, surplus and other funds		$1,258,894,577

NOTE: The Internal Revenue Service is currently conducting the audit of the Tower Group Inc.'s consolidated Federal Income Tax returns for tax year 2006. All material adjustments, if any, made subsequent to the date of examination and arising from said audit, are not reflected in the financial statements included in this report. 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

Surplus as regards policyholders increased $107,063,407 during the five-year examination period January 1, 2005 through December 31, 2009, detailed as follows:

Underwriting Income		
Premiums earned		$1,155,304,577
Deductions:		
Losses incurred	$499,016,420	
Loss adjustment expenses incurred	168,616,841	
Other underwriting expenses incurred	387,698,295	
Total underwriting deductions		1,055,331,556
Net underwriting gain or (loss)		$ 99,973,021
Investment Income		
Net investment income earned	$116,749,629	
Net realized capital gain	(42,162,498)	
Net investment gain or (loss)		74,587,131
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$ (1,335,792)	
Finance and service charges not included in premiums	5,808,645	
Interest on funds held by Company and Retroactive reinsurance	(4,897,224)	
Total other income		(424,371)
Net income after dividends to policyholders but before federal and foreign income taxes		$ 174,135,781
Federal and foreign income taxes incurred		83,037,264
Net income		$ 91,098,517

C. Capital and Surplus

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 2004			$126,081,771
Net income	$ 91,098,515		
Net unrealized capital gains or (losses)		$ 5,939,652	
Change in net deferred income tax	44,685,038		
Change in nonadmitted assets		64,676,215	
Change in provision for reinsurance		1,681,713	
Cumulative effect of changes in accounting principles	2,028,504		
Capital changes paid in	214		
Surplus adjustments paid in	58,455,615		
Dividends to stockholders		22,350,000	
Effect of Adoption of SSAP No. 10R & Prior period adjustments (2005)	5,443,101	0	
Total gains and losses	$201,710,987	$94,647,580	
Net increase (decrease) in surplus			107,063,407
Surplus as regards policyholders per report on examination as of December 31, 2009			$233,145,178

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $256,530,200 is the same as reported by the Company as of December 31, 2009. 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.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

ITEM		PAGE NO.
A.	Reinsurance	
i.	It is recommended that the Company file the assumed reinsurance agreements, the agency agreements and all related agreements with the Department pursuant to Section 1505 of the New York Insurance Law. The Company complied with this recommendation.	7
ii.	Effective January 1, 1994, the Company entered into an agreement to cede an 85% quota share of losses previously incurred, up to an 85% loss ratio. It is noted that until December 31, 2004, the Company had incorrectly accounted for this treaty as prospective reinsurance rather than as retroactive reinsurance pursuant to the requirements set forth in Statement of Statutory Accounting Principles ("SSAP") No. 62 of the NAIC Accounting Practices and Procedures Manual. The agreement was terminated on a cut-off basis effective December 31, 2000. Balances relating to this agreement were not material to the Company's surplus to policyholders at December 31, 2004. This agreement was terminated in December 31, 2004. Therefore, the recommendation is no longer applicable.	9
iii	It is recommended that the Company obtain the Department's prior approval to cede more than 50% of its unearned premiums in acordane with Section 1308(e)(1) of the New York Insurance Law. The Company complied with this recommendation.	11
B.	Holding Company System	
i.	It is recommended that the Company provide certified financial statements for Michael Lee and each significant person within its holding company system in its annual holding company registration statements pursuant to the provisions of Part 80-1.4(c) of Department Regulation 52. The Company complied with this recommendation.	11
ii.	It is recommended that the Company modify the organization chart in the registration statements ("Form HC-1") and Schedule Y Part 1 of all	12

ITEM		PAGE NO.
	Guaranty Funds	
	It is recommended that the Company set up the proper accruals for guaranty fund assessments in accordance with the Annual Statement Instructions and SSAP No. 35 of the NAIC Accounting Practices and Procedures Manual.	17
	The Company complied with this recommendation.	
	Surplus Notes	
	On December 19, 2002, the Company issued a surplus note in the amount of $10 million to PXRE Reinsurance (Barbados) Company, Ltd. ("PXRE"), which was approved by this Department pursuant to the provisions of Section 1307 of the New York Insurance Law. The surplus note was part of a financing agreement in conjunction with the aggregate stop loss reinsurance agreement between the Company and PXRE. On December 26, 2003, this Department approved the Company to repay the principal of the surplus note plus $125,000 in interest in conjunction with a surplus contribution in the amount of $10,125,000 from the Company's parent, TGI.	17
	There is no follow-up required on this comment.	
E.	Market Conduct Activities	
	It is recommended that the Company properly appoint and compensate its agents in a timely manner in accordance with Section 2103(b) and Section 2115(a)(1) of the New York Insurance Law.	23
	The Company complied with this recommendation.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Management,	
	It is recommended that the Company convene regularly scheduled quarterly meetings of its board of directors as stated in its by-laws and maintain complete minutes of such proceedings.	5
B.	Reinsurance	
	It is recommended that the Company comply with Article IX , Section B of its pooling agreement as filed in accordance with Section 1505(d)(2) of the New York Insurance Law.	10
C.	Holding Company	
i	It is recommended that the Company follow the provisions of its service agreement filed in accordance with Section 1505(d)(3) of the New York Insurance Law.	15
ii	It is recommended that the Company comply with the filing requirements of Section 1505(d)(3) of the New York Insurance Law as well as the provisions of Department Circular Letter No. 33 (1979).	16
D.	Accounts and Records	
	It is recommended that the Company continue its remediation efforts in reconciling its premiums receivables.	17

Respectfully submitted,

/s/
Glenda Gallardo, CFE
Principal Insurance Examiner

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

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

/s/
Glenda Gallardo

Subscribed and sworn to before me

this__________ day of ____________________, 2011.

Appointment No. 30442

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, James J. Wrynn *Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

Glenda Gallardo

as proper person to examine into the affairs of the

TOWER INSURANCE COMPANY OF NEW YORK

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 8th *day of* December, *2009*

JAMES J. WRYNN
Superintendent of Insurance