

REPORT ON EXAMINATION
OF THE
ALEA NORTH AMERICA INSURANCE COMPANY
AS OF
DECEMBER 31, 2001

DATE OF REPORT

AUGUST 22, 2002

EXAMINER

RALPH BASIT

TABLE OF CONTENTS

<u>ITEM NO.</u>		<u>PAGE NO.</u>
1.	Scope of examination	2
2.	Description of Company	3
	A. Management	4
	B. Territory and plan of operation	7
	C. Reinsurance	8
	D. Holding company system	10
	E. Significant operating ratios	13
	F. Abandoned Property Law	14
	G. Custodian agreement	14
3.	Financial statements	16
	A. Balance sheet	16
	B. Underwriting and investment exhibit	18
4.	Losses and loss adjustment expenses	20
5.	Compliance with prior report on examination	20
6.	Summary of comments and recommendations	20



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

George E. Pataki
Governor

Gregory V. Serio
Superintendent

August 22, 2002

Honorable Gregory 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 21859, dated April 26, 2002, and attached hereto, I have made an examination into the condition and affairs of the Alea North America Insurance Company as of December 31, 2001 and respectfully submit the following report thereon.

The examination was conducted at the Company's home office located at 50 Danbury Road, Wilton, Connecticut 06895.

Wherever the designations "the Company" or "Alea" appear herein without qualification, they should be understood to indicate the Alea North America Insurance Company.

Wherever the designation "Department" appears without qualification, it should be understood to indicate the New York Insurance Department.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1996. This examination covers the five year period from January 1, 1997 through December 31, 2001.

This examination was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis, verification or description, including: invested assets, inter-company balances, 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 and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants.

A review or audit was also made of the following items as called for in Examiners Handbook of the National Association of Insurance Commissioners:

- History of Company
- Management and control
- Territory and plan of operation
- Reinsurance
- Holding company system
- Corporate records
- Fidelity bond and other insurance
- Financial statements

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

2. DESCRIPTION OF THE COMPANY

The Company was formed under the name of Metropolitan Fire Reinsurance Company in 1932 as a result of the merger of the Fire Reassurance Company of New York and the Metropolitan Fire Insurance Company of New York. The Company changed its name to Metropolitan Fire Assurance Company in 1946. On May 28, 1980, it adopted the title of American Independent Reinsurance Company. In September 1989, Great American Insurance Company acquired American Independent Reinsurance Company. In January 1992, an amended license was issued with the name changed to Seven Hills Insurance Company. On July 2, 2001, Alea Holdings US Company (“Alea Holdings”) purchased Seven Hills Insurance Company from Great American Insurance Company. Effective August 2001, the Company amended its certificate of incorporation to change its name to Alea North America Insurance Company.

The Company's parent company, Alea Holdings US Company, is 74.99% owned by Alea Group Holdings (Bermuda), Ltd. and 25.01% by Alea Group Holdings AG, a Swiss corporation. These Companies are ultimately controlled by KKR 1996 Overseas Limited, a Cayman Island Limited Liability Company.

Due to an error in calculation, the Company incorrectly stated in its annual statement that the parent Company, Alea Holdings US Company is 94.21% owned by Alea Group Holdings (Bermuda) Ltd. and 5.79% by Alea Group Holdings AG, a Swiss corporation. It is recommended that the Company take proper care in the calculation of the ownership of the holding company and in the preparation of the annual statement.

Current paid up capital consists of 75,000 shares of authorized, issued and outstanding common stock with a par value of \$40 per share.

A. Management

Pursuant to the Company's charter and by-laws, management is vested in a board of directors and shall be exercised by the board directly through such committees or officers as the board may from time to time elect or appoint.

The Company's charter states that the number of directors shall consist of not less than thirteen nor more than eighteen members. As of December 31, 2001, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Amanda Jane Atkins Baar, Switzerland	Group Chief Financial Officer and Executive Vice President, Alea Services UK, Ltd.
John James Bennett Fairfield, CT	Vice President, Marketing, Alea North America Insurance Company
Robert Dickens Byler Unionville, CT	President & Chief Executive Officer, Alea North America Insurance Company
James Windsor Cahill, Jr. Walpole, NH	Vice President & Treasurer, Alea North America Insurance Company
Robert Conrad Chilone Meriden, CT	Vice President, Compliance, Alea North America Insurance Company
Kevin Gerard Costello West Hartford, CT	Vice President, Claims, Alea North America Insurance Company
Leonard Ray Goldberg Atlantic Highlands, NJ	President and Chief Executive Officer, Alea North America Company
Perry Golkin New York, NY	Member, Kohlberg Kravis Roberts & Co.

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
George Perryman Judd Westport, CT	Vice President & Secretary, Alea North America Insurance Company
Scott Charles Nuttall New York, NY	Associate, Kohlberg Kravis Roberts & Co.
Dennis William Purkiss London, England	Group Chief Executive Officer, Alea Services UK Limited
Elizabeth Ann Sander Bedford, NY	Vice President & Actuary, Alea North America Company
Vance Neil Sawamura Ellington, CT	Vice President, Underwriting, Alea North America Insurance Company

The minutes of all meetings of the board of directors held during the examination period were reviewed. A review of such minutes shows that there were no annual meetings held during the years 2000 and 2001 as required by the Company's Charter. Instead, all actions were taken by written consent, in lieu of the annual meeting. Members of the board have a fiduciary responsibility and must evidence 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 decisions may be reached by the board. It is recommended that the Company hold annual meetings as prescribed by its charter.

A review of the minutes of the meetings of both the Company's board of directors and its investment committee revealed that neither the board nor a subcommittee thereof was approving the Company's investment transactions. This appears to be a violation of Section 1411(a) of the New York Insurance Law, which states as follows:

“No domestic insurer shall make any loan or investment...unless authorized or approved by its board of directors or a committee thereof responsible for supervising or making such investment or loan.”

It is recommended that the Company comply with the provisions of Section 1411(a) of the New York Insurance Law. It was noted that subsequent to the completion of this examination, the board of directors approved the Company's investment transactions via unanimous consent.

As of December 31, 2001, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Dennis William Purkiss	Chairman
Robert Dickens Byler	President & CEO
James Windsor Cahill, Jr.	Vice President & Treasurer
George Perryman Judd	Vice President & Secretary
Kevin Gerard Costello	Vice President, Claims
Robert Conrad Chilone	Vice President, Compliance
John James Bennett	Vice President, Marketing
Vance Neil Sawamura	Vice President, Underwriting
Holly Beth Hanes	Assistant Vice President & Assistant Secretary

Conflict of Interest

The Company has a formal conflict of interest policy in place. The conflict of interest statement provides the Company's board of directors with information about the existence of relationships between persons completing the statement and parties with whom the entity may transact business.

As of the examination date, ten out of the thirteen directors signed the conflict of interest statements. It is recommended that all directors sign an annual conflict of interest statement. Subsequent to the completion of this examination, the Company provided completed conflict of interest disclosures for all board members.

B. Territory and Plan of Operation

As of December 31, 2001, the Company was authorized to transact business in forty-five states of the United States, plus the District of Columbia. Additionally, the Company's was authorized as a reinsurer in the state of Georgia.

The following schedule shows the direct premiums written in New York State as well as countrywide, by calendar year within the examination period, and the percentage which the New York premiums bear to the countrywide premiums:

DIRECT PREMIUMS WRITTEN

<u>Year</u>	<u>New York State</u>	<u>Countrywide</u>	<u>Percentage of New York Premiums Written to Countrywide</u>
1997	\$484,022	\$6,011,131	8.05%
1998	\$543,311	\$7,472,023	7.27%
1999	\$16,389	\$6,561,564	0.25%
2000	\$51,309	\$2,424,338	2.12%
2001	\$3,170	\$151,714	2.09%

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

<u>Paragraph</u>	<u>Line of Business</u>
3	Accident and health
4	Fire
5	Miscellaneous property
6	Water
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability

<u>Paragraph</u>	<u>Line of Business</u>
14	Property damage liability
15	Workers' compensation & 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 is also empowered to transact 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 (Public Law No. 803, 69 Cong. as amended; 33 USC Section 901 et seq. as amended).

Based upon the lines of business for which the Company is licensed, and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$2,200,000.

C. Reinsurance

Prior to April 1, 2001, the Company was a participant to an inter-company reinsurance pooling agreement ("pool") with Great American Insurance Company, its parent company at the time. Pursuant to the pooling agreement, the Company ceded its entire direct writings to the pool and assumed a specified percentage of the net underwriting results of the pool.

On July 2, 2001, the Company (formerly Seven Hills Insurance Company) was purchased by Alea Holdings from Great American Insurance Company for consideration of \$18,400,000. In anticipation of this sale, the Company terminated its participation in the pool. As a result of the termination, the Company ceased to cede and to assume business in the pool, and only retained its direct business.

Pursuant to the Company's plan of operation, the Company will provide both direct and reinsurance underwriting capabilities to Alea North America Company, an affiliate intermediary in Connecticut and in New York. Within Alea North America Company, there is an Alternative Risk Division and a Reinsurance Division. The Alternative Risk Division will primarily underwrite various forms of alternative business, which typically involve some form of self-insurance, unbundling of services, and includes an alternative funding mechanism. The Alternative Risk Division has established a nationwide network of agents and brokers. The Reinsurance Division is a broker-market treaty underwriting team reinsuring primarily specialty insurance companies.

On July 2, 2001, Seven Hills Insurance Company entered into an assumption reinsurance agreement with the Great American Insurance Company ("the reinsurer"). Pursuant to the agreement, Seven Hills Insurance Company ceded 100% of its pool liabilities to the reinsurer. The agreement states that the reinsurer will substitute itself "in the place and stead of the Company as if named in the place of the Company, and any ceding company under the Pooling Agreement may thereafter disregard the Company as a party thereto and treat the reinsurance as if it had been originally obligated thereunder." This agreement was approved by the New York Insurance Department.

Effective July 2, 2001, the Company entered a flexible quota share reinsurance agreement with Alea London Ltd., Alea (Bermuda), Ltd., and Alea Europe Ltd. (collectively referred to as the "Reinsurers"). The agreement states, "The Company shall cede to the Reinsurer and the Reinsurer shall accept from the Company a flexible percentage quota share participation of all new and renewal business underwritten at and after 12:01 a.m., Standard Time, January 1, 2002 under all business issued and classified by the Company as Property and Casualty Business..."

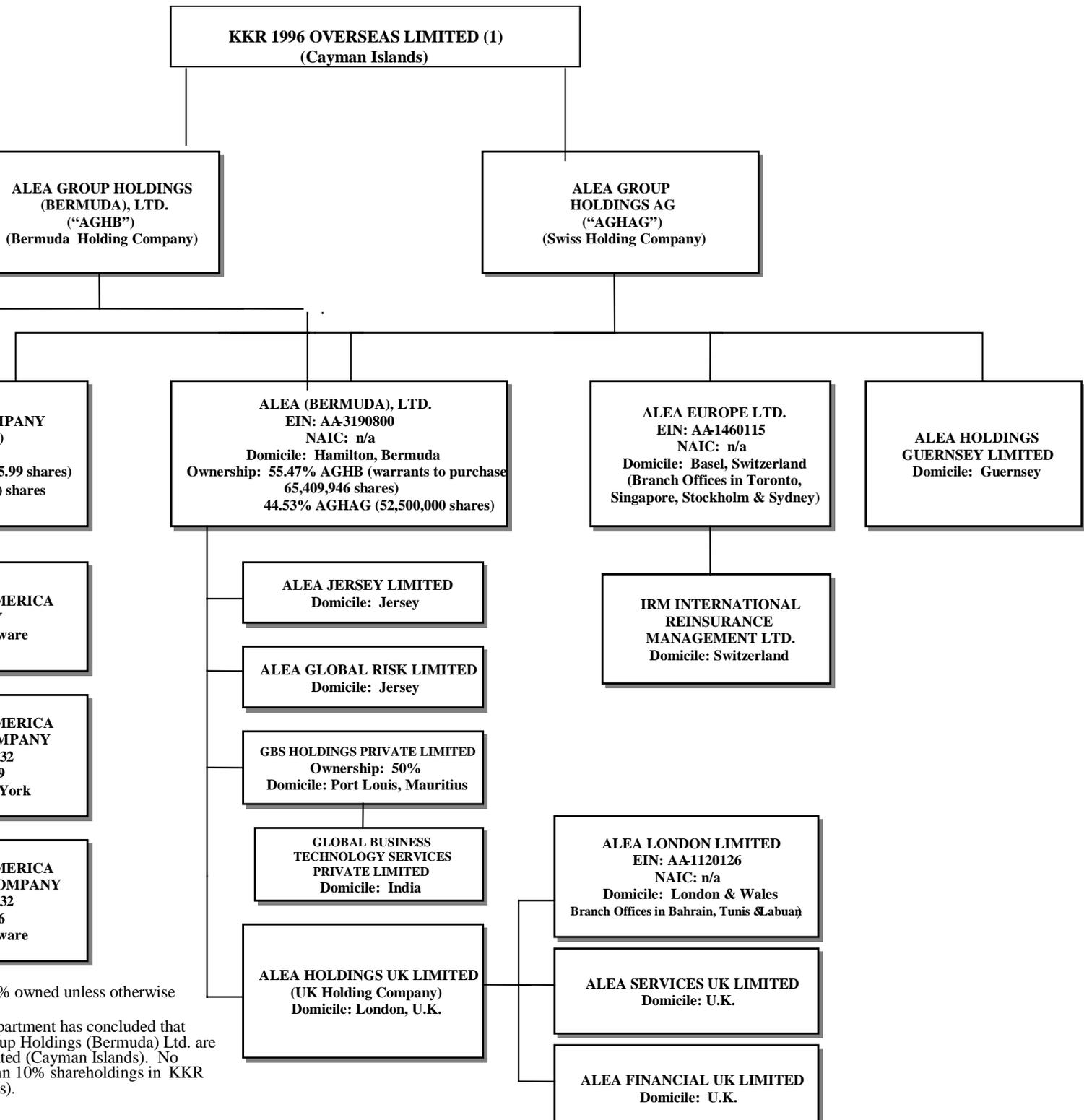
Although the agreement was filed with and approved by the New York Insurance Department, the agreement does not include the following required wording to the offset clause: "In the event of the insolvency of either party to this agreement then offsets shall only be allowed to the extent permitted by the provisions of New York Insurance Law Section 7427." It is recommended that the aforementioned wording be included in the agreement.

D. Holding Company System

The Company's parent Company, Alea Holdings US Company is 74.99% owned by Alea Group Holdings (Bermuda), Ltd. and 25.01% by Alea Group Holdings AG, a Swiss corporation.

As of December 31, 2001, the Company's immediate parent was Alea Holdings US Company which in turn was owned by Alea Group Holdings (Bermuda), Ltd. and Alea Group Holdings AG. The ultimate parent was KKR 1996 Overseas Limited.

The holding company organization chart is as follows:



% owned unless otherwise
 department has concluded that
 up Holdings (Bermuda) Ltd. are
 ted (Cayman Islands). No
 an 10% shareholdings in KKR
 s).

As of December 31, 2001, the following agreements were in force between the Company and members of the holding company system:

Administrative Services Agreement

The Company has an underwriting and administrative services agreement with Alea North America Company ("ANAC"), effective July 2, 2001. Pursuant to the terms of the agreement, ANAC will provide the following services for the Company:

1. Underwriting, rating, quoting, binding, accepting, and rejecting insurance risks.
2. Claims/loss adjustment, actuarial and other operating services.
3. Issue policies, charge, collect, and receive premiums due, and cancel policies.
4. Provide office space, furnishings, and equipment.
5. Preparation and filing of all reports, statements, and documents required by regulation and law.
6. Develop and submit investment policies for the board of directors to review.

This contract was submitted to and approved by the New York Insurance Department as part of Alea Holdings US Company's application for approval of control of Seven Hills Insurance Company.

Tax Allocation Agreement

The Company is party to a tax allocation agreement with Alea Holdings US Company, and its affiliates, Alea North America Reinsurance Insurance Company and Alea North America Company. The agreement has an effective date of December 31, 2001. Pursuant to the terms of the agreement, the parties will file consolidated federal income tax returns. Said agreement stipulates that the Company will be no worse off by filing consolidated returns than it would have been if separate income tax returns were filed.

This contract was submitted to and approved by this Department as part of Alea Holdings US Company's application for approval of control of Seven Hills Insurance Company.

Guarantee Agreement

The Company has a guarantee agreement with Alea (Bermuda), Ltd. Pursuant to the terms of the guarantee agreement, Alea (Bermuda), Ltd. unconditionally guarantees to the Company on behalf of, and for the benefits of the Company, to the owners of insurance contracts and reinsurance contracts issued by the Company to make funds available to the Company for the timely payment of contractual claims. This contract was submitted to and approved by this Department as part of Alea Holdings US Company's application for approval of control of Seven Hills Insurance Company. The contract was subsequently amended to incorporate changes to the holding system.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2001, based upon the results of this examination:

Net premiums written in 2001 to Surplus as regards policyholders	0%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	17%
Premiums in course of collection to Surplus as regards to policyholders	0%

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 usually presented herein are not presented since the Company has reinsured by assumption all loss and loss adjustment expenses to the Great American Insurance Company.

F. Abandoned Property Law

Prior to the purchase of the Company by Alea Holdings US Company on July 2001, the Company's direct obligations for reporting and making remittances under Section 1316 of the New York Abandoned Property Law were handled on a pool basis by Great American Insurance Company. This was done because checks written for Seven Hills Insurance Company were written on Great American Insurance Company's checks and reported under Great American Insurance Company's tax identification. As such, there were no individual unclaimed property reports for Seven Hills Insurance Company. Alea North American Insurance Company has filed an abandoned property report for the year 2001.

G. Custodian Agreement

As of the examination date, the Company had a custodian agreement with Brown Brothers Harriman & Co. Pursuant to the terms of the agreement, Brown Brothers Harriman, & Co. holds the cash, short term, and long term securities on behalf of the Company. A review of the Company's custodian service agreement with Brown Brothers Harriman & Co. indicates that the agreement lacks the following protective covenants/ provisions:

1. The custodian shall have in force, for its own protection, Bankers Blanket Bond Insurance of the broadest form available for commercial banks and will continue to maintain such insurance. The custodian shall give the Company sixty days written notice of any material change in the form or amounts of such insurance or termination of this coverage.
2. The custodian shall maintain records sufficient to verify the information that the Company is required to report in Schedule D of the Annual Statement blank of the Insurance Department of the State of New York.
3. The custodian shall furnish the Company with the appropriate affidavits in the form as may be acceptable to the Company and to the New York Insurance Department in order for the securities referred to in such affidavits to be recognized as admitted assets of the Company.
4. There should be a provision in the agreement that would give the insurer the opportunity to secure the most recent report on the review of the custodian's system of internal controls, pertaining to custodian record keeping, issued by internal or independent auditors.

It is recommended that the Company incorporate the aforementioned provisions in its custodian agreement.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as determined by this examination as of December 31, 2001, and is the same as reported by the Company:

<u>Assets</u>	Admitted <u>Assets</u>	Not-Admitted <u>Assets</u>	Admitted <u>Assets</u>
Bonds	\$33,696,787	\$	\$33,696,787
Common Stocks	24,154,001		24,154,001
Cash on hand and on deposit and short-term investments	57,164,331		57,164,331
Interest, dividends and real estate income due and accrued	<u>432,360</u>	<u> </u>	<u>432,360</u>
Total assets	<u>\$115,447,479</u>	<u>\$ </u>	<u>\$115,447,479</u>

Liabilities

Losses and loss adjustment expenses	
Reinsurance payable on paid losses and loss adjustment expenses	
Other expenses	\$60,000
Payable to parent, subsidiaries, and affiliates	177,246
Payable for securities	<u>14,957,752</u>
Total liabilities	<u>\$15,194,998</u>

Surplus and Other Funds

Common capital stock	\$3,000,000
Gross paid in and contributed surplus	91,937,710
Unassigned funds (surplus)	<u>5,314,771</u>
Surplus as regards policyholders	<u>\$100,252,481</u>
Total liabilities and surplus	<u>\$115,447,479</u>

Note 1: Prior to the Company's purchase by Alea Holdings in July 2001, the Company filed a consolidated tax return statements with Great American Insurance Company. Great American Insurance Company was last audited in the mid 1990's and is currently being audited for 1998. Great American Insurance Company will be 100% liable for any adjustments. The examiner is unaware of any potential exposure of the Company to any further tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$89,810,449 during the five-year examination period, January 1, 1997 through December 31, 2001, detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$4,742,651
Deductions:		
Losses incurred	\$2,820,175	
Loss adjustment expenses incurred	643,726	
Other underwriting expenses incurred	<u>1,840,050</u>	
Total underwriting deductions		<u>5,303,951</u>
Net underwriting (loss)		\$(561,300)

Investment Income

Net investment income earned	\$6,189,330	
Net realized capital gains	<u>689,699</u>	
Net investment gain		6,879,029

Other Income

Net gain or (loss) from agents' balances previously charged off	\$(12,972)	
Miscellaneous expenses	(26,627)	
Retroactive reinsurance gain	<u>124,135</u>	
Net gain from other income		<u>84,536</u>
Net income before dividends to policyholders and federal income taxes		\$6,402,265
Dividends to policyholders		<u>22,732</u>
Net income after dividends to policyholders and before federal income taxes		\$6,379,533
Federal income taxes incurred		<u>1,174,693</u>
Net Income		<u><u>\$5,204,840</u></u>

Capital and Surplus Account

Surplus as regard policyholders, per report on examination as of December 31, 1996			\$10,442,032
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income (loss)	\$5,204,840		
Net unrealized capital gains	39,823		
Cumulative effect in change of accounting principle		\$8,567	
Adjustments to paid in	111,154,001		
Dividends to stockholders		26,493,575	
Extraordinary amounts of taxes for prior yrs	32,862		
Retroactive reinsurance	<u> </u>	<u>118,935</u>	
Total gains and losses	<u>\$116,431,526</u>	<u>\$26,621,077</u>	
Net gain in surplus			<u>89,810,449</u>
Surplus as regards policyholders, per report on examination as of December 31, 2001			<u>\$100,252,481</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability of \$0 is the same as that reported by the Company as of December 31, 2001. The Company has reinsured all outstanding losses via a reinsurance and assumption agreement with a former affiliate.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained no comments or recommendations.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Description of the Company</u>	
It is recommended that the Company take proper care in the calculation of the ownership of the holding company and in the preparation of the annual statement.	3
B. <u>Management</u>	
<u>Board of Directors</u>	
i. It is recommended that the Company hold annual meetings as prescribed by its charter.	5
ii. It is recommended that the Company comply with Section 1411(a) of the New York Insurance Law. It was noted that subsequent to the completion of this examination, the board of directors approved the Company's investment transactions via unanimous consent.	6

<u>ITEM</u>		<u>PAGE NO.</u>
	<u>Conflict of Interest</u>	
	It is recommended that all directors sign an annual conflict of interest statement. Subsequent to the completion of this examination, the Company provided conflict of interest disclosures for all board members.	6
C.	<u>Reinsurance</u>	
	It is recommended that the Company include the following wording to the offset clause in its reinsurance agreements: "In the event of the insolvency of either party to this agreement then offsets shall only be allowed to the extent permitted by the provisions of New York Insurance Law, Section 7427."	10
D.	<u>Custodian Agreement</u>	
	It is recommended that the Company amend its custodian agreement to incorporate the provisions set forth in this report.	15

Respectfully submitted,

_____/S/_____
Ralph Basit
Senior Insurance Examiner

STATE OF NEW YORK)
)SS.
)
COUNTY OF NEW YORK)

RALPH BASIT, being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

_____/S/_____
Ralph Basit

Subscribed and sworn to before me
this _____ day of _____ 2002

Appointment No. 21859

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:

Ralph Basit

as proper person to examine into the affairs of the

ALEA NORTH AMERICA INSURANCE COMPANY

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

Company

with such other information as he 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 26th day of April, 2002



GREGORY V. SERIO
Superintendent of Insurance